



EUROPEAN CENTRAL BANK

THE SINGLE  
MONETARY POLICY  
IN STAGE THREE

General documentation  
on ESCB monetary policy  
instruments and procedures



September 1998

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# Contents

<b>Introduction</b>	1
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## Chapter 1

### **Overview of the monetary policy framework**

1.1 The European System of Central Banks	4
1.2 Objectives of the ESCB	4
1.3 ESCB monetary policy instruments	4
1.3.1 Open market operations	4
1.3.2 Standing facilities	5
1.3.3 Minimum reserves	6
1.4 Counterparties	6
1.5 Underlying assets	6
1.6 Modifications to the monetary policy framework	7

---

## Chapter 2

### **Eligible counterparties**

2.1 General eligibility criteria	10
2.2 Selection of counterparties for quick tenders and bilateral operations	11

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## Chapter 3

### **Open market operations**

3.1 Reverse transactions	13
3.1.1 General considerations	13
3.1.2 Main refinancing operations	14
3.1.3 Longer-term refinancing operations	14
3.1.4 Fine-tuning reverse operations	15
3.1.5 Structural reverse operations	15
3.2 Outright transactions	15
3.3 Issuance of ECB debt certificates	16
3.4 Foreign exchange swaps	17
3.5 Collection of fixed-term deposits	18

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## Chapter 4

### **Standing facilities**

4.1 The marginal lending facility	21
4.2 The deposit facility	22

## Chapter 5

### **Procedures**

5.1	Tender procedures	25
5.1.1	General considerations	25
5.1.2	Tender operations calendar	27
5.1.3	Announcement of tender operations	28
5.1.4	Counterparties' preparation and submission of tender bids	29
5.1.5	Tender allotment procedures	30
5.1.6	Announcement of tender results	34
5.2	Procedures for bilateral operations	35
5.3	Settlement procedures	36
5.3.1	General considerations	36
5.3.2	Settlement of open market operations	36
5.3.3	End-of-day procedures	37

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## Chapter 6

### **Eligible assets**

6.1	General considerations	39
6.2	Tier one assets	40
6.3	Tier two assets	41
6.4	Risk control measures	44
6.4.1	Initial margins	44
6.4.2	Risk control measures for tier one assets	44
6.4.3	Risk control measures for tie two assets	47
6.5	Valuation principles for underlying assets	48
6.6	Cross-border use of eligible assets	48

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## Chapter 7

### **Minimum reserves**

7.1	General considerations	52
7.2	Institutions subject to minimum reserves	52
7.3	Determination of minimum reserves	53
7.4	Maintenance of reserve holdings	55
7.5	Reporting and verification of the reserve base	56
7.6	Non-compliance with minimum reserve obligations	56

---

## Chapter 8

### **Transitional provisions**

8.1	Open market operations and standing facilities	59
8.2	Minimum reserves	60

## Annexes

1	Examples of monetary policy operations and procedures	62
2	Glossary	75
3	Selection of counterparties for foreign exchange intervention operations and foreign exchange swaps for monetary policy purposes	83
4	The reporting framework for the money and banking statistics of the European Central Bank	84
5	Indicative calendar for the ESCB's tender operations in 1999	115
6	List of the wire services to be used by the ESCB in its communication of monetary policy operations to the public	117
7	Operational conditions for the use of eligible securities settlement systems	118

## List of Charts, Tables and Boxes

### Charts

1	Normal time frame for the operational steps for standard tenders	26
2	Normal time frame for the operational steps for quick tenders	26
3	The correspondent central banking model	49

### Tables

1	ESCB monetary policy operations	8
2	Normal trade days for the main and the longer-term refinancing operations	27
3	Normal settlement dates for ESCB open market operations	37
4	Eligible assets for ESCB monetary policy operations	43

### Boxes

1	Issuance of debt certificates	17
2	Foreign exchange swaps	18
3	Operational steps for tender procedures	25
4	Allotment of fixed rate tenders	30
5	Allotment of variable rate tenders in euro	32
6	Allotment of variable rate foreign exchange swap tenders	33
7	Risk control measures	44
8	Levels of valuation haircuts applied to eligible underlying assets	46
9	Calculation of initial margins and valuation haircuts	47
10	Reserve base and reserve ratios	54
11	Calculation of the remuneration of holdings of required reserves	56

# **Introduction**

## **Introduction**

*This Report presents the operational framework chosen by the European System of Central Banks (ESCB) for the single monetary policy in Stage Three of Economic and Monetary Union (EMU). The Report is intended to serve as the "general documentation" on the monetary policy instruments and procedures of the ESCB, particularly aiming to provide counterparties with the information they need in relation to the ESCB's monetary policy framework.*

*The general documentation does not in itself confer rights on counterparties. The legal relationship between the ESCB and its counterparties has been established in appropriate contractual or regulatory arrangements.*

*This Report is divided into eight chapters: Chapter 1 gives an overview of the operational framework for the monetary policy of the ESCB. In Chapter 2 eligibility criteria for counterparties taking part in ESCB monetary policy operations are specified. Chapter 3*

*describes open market operations, while Chapter 4 presents the standing facilities available to counterparties. Chapter 5 specifies procedures applied in the execution of monetary policy operations. In Chapter 6 the eligibility criteria for underlying assets in monetary policy operations are defined. Chapter 7 presents the ESCB's minimum reserve system. Finally, specific provisions to be applied in the transition to Stage Three are dealt with in Chapter 8.*

*Annexes to the Report contain examples of monetary policy operations, a glossary, criteria for the selection of counterparties to ESCB foreign exchange intervention operations, a presentation of the reporting framework for the money and banking statistics of the European Central Bank (ECB), the indicative calendar for the ESCB's tender operations in 1999, a list of the wire services to be used by the ESCB in its communication of monetary policy operations to the public and, finally, a list of the securities settlement systems fulfilling the ECB's minimum standards.*

# Chapter 1

## **Overview of the monetary policy framework**

## Overview of the monetary policy framework

### 1.1 The European System of Central Banks

The European System of Central Banks (ESCB) consists of the European Central Bank (ECB) and the national central banks of the EU Member States.<sup>1</sup> The activities of the ESCB are carried out in accordance with the Treaty establishing the European Community (Treaty) and the Statute of the European System of Central Banks and of the European Central Bank (ESCB/ECB Statute). The ESCB is governed by the decision-making bodies of the ECB. In this respect, the Governing Council of the ECB is responsible for the formulation of monetary policy, while the Executive Board is empowered to implement monetary policy according to the decisions and guidelines laid down by the Governing Council. To the extent deemed possible and appropriate and with a view to ensuring operational efficiency, the ECB shall have recourse to the national central banks<sup>2</sup> to carry out the operations which form part of the tasks of the ESCB. The ESCB monetary policy operations are executed on uniform terms and conditions in all Member States.<sup>3</sup>

### 1.2 Objectives of the ESCB

The primary objective of the ESCB, as defined in Article 105 of the Treaty, is to maintain price stability. Without prejudice to the primary objective of price stability, the ESCB has to support the general economic policies in the European Community. In pursuing its objectives, the ESCB has to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources.

### 1.3 ESCB monetary policy instruments

In order to achieve its objectives, the ESCB has at its disposal a set of monetary policy instruments; the ESCB conducts *open market operations*, offers *standing facilities* and requires credit institutions<sup>4</sup> to hold *minimum reserves* on accounts with the ESCB.

#### 1.3.1 Open market operations

Open market operations play an important role in the monetary policy of the ESCB for the purposes of steering interest rates, managing the liquidity situation in the market and signalling the stance of monetary policy. The ESCB has available five types of instruments for the conduct of open market operations. The most important instrument is *reverse transactions* (applicable on the basis of repurchase agreements or collateralised loans). The ESCB may also use *outright transactions*, the *issuance of debt certificates*, *foreign exchange swaps* and the *collection of fixed-term deposits*. Open market

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<sup>1</sup> It should be noted that national central banks of Member States which have not adopted the single currency in accordance with the Treaty establishing the European Community (Treaty) retain their powers in the field of monetary policy according to national law and are thus not involved in the conduct of the single monetary policy.

<sup>2</sup> Throughout this document, the term "national central banks" refers to the national central banks of the Member States which have adopted the single currency in accordance with the Treaty.

<sup>3</sup> Throughout this document, the term "Member State" refers to a Member State which has adopted the single currency in accordance with the Treaty.

<sup>4</sup> The ECB might review the range of institutions subject to reserve requirements. Selecting a broader range of institutions than credit institutions would require an amendment of Article 19.1 of the ESCB/ECB Statute. This could be brought about by the simplified amendment procedure specified in Article 41 of the ESCB/ECB Statute.

operations are initiated by the ECB, which also decides on the instrument to be used and the terms and conditions for their execution. They can be executed on the basis of standard tenders, quick tenders or bilateral procedures.<sup>5</sup> With regard to their aim, regularity and procedures, the ESCB open market operations can be divided into the following four categories (see also Table I):

- The *main refinancing operations* are regular liquidity-providing reverse transactions with a weekly frequency and a maturity of two weeks. These operations are executed by the national central banks on the basis of standard tenders. The main refinancing operations play a pivotal role in pursuing the purposes of ESCB open market operations and provide the bulk of refinancing to the financial sector.
- The *longer-term refinancing operations* are liquidity-providing reverse transactions with a monthly frequency and a maturity of three months. These operations aim to provide counterparties with additional longer-term refinancing and are executed by the national central banks on the basis of standard tenders. In these operations, the ESCB does not, as a rule, intend to send signals to the market and therefore normally acts as a rate taker.
- *Fine-tuning operations* are executed on an ad hoc basis with the aim of managing the liquidity situation in the market and of steering interest rates, in particular in order to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the market. Fine-tuning operations are primarily executed as reverse transactions but can also take the form of outright transactions, foreign exchange swaps and the collection of fixed-term deposits. The instruments and procedures applied in the conduct of fine-tuning operations are adapted to

the types of transactions and the specific objectives pursued in the operations. Fine-tuning operations are normally executed by the national central banks through quick tenders or bilateral procedures. The Governing Council of the ECB will decide whether, under exceptional circumstances, fine-tuning bilateral operations may be executed by the ECB itself.

- In addition, the ESCB may carry out *structural operations* through the issuance of debt certificates, reverse transactions and outright transactions. These operations are executed whenever the ECB wishes to adjust the structural position of the ESCB vis-à-vis the financial sector (on a regular or non-regular basis). Structural operations in the form of reverse transactions and the issuance of debt instruments are carried out by the national central banks through standard tenders. Structural operations in the form of outright transactions are executed through bilateral procedures.

### 1.3.2 Standing facilities

Standing facilities aim to provide and absorb overnight liquidity, signal the general stance of monetary policy and bound overnight

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<sup>5</sup> The different procedures for the execution of ESCB open market operations, i.e. standard tenders, quick tenders and bilateral procedures, are specified in Chapter 5. Standard tenders are executed within a time frame of 24 hours from the tender announcement to the certification of the allotment result. All counterparties fulfilling the general eligibility criteria specified in Section 2.1 may participate in standard tenders. Quick tenders are executed within a time frame of one hour. The ESCB may select a limited number of counterparties to participate in quick tenders. The term bilateral procedures refers to any case in which the ESCB conducts a transaction with one or a few counterparties without using tender procedures. Bilateral procedures include operations executed through stock exchanges or market agents.

market interest rates. Two standing facilities are available to eligible counterparties on their own initiative subject to their fulfilment of certain operational access conditions (see also Table I):

- Counterparties can use the *marginal lending facility* to obtain overnight liquidity from the national central banks against eligible assets. Under normal circumstances, there are no credit limits or other restrictions on counterparties' access to the facility apart from the requirement to present sufficient underlying assets. The interest rate on the marginal lending facility normally provides a ceiling for the overnight market interest rate.
- Counterparties can use the *deposit facility* to make overnight deposits with the national central banks. Under normal circumstances, there are no deposit limits or other restrictions to counterparties' access to the facility. The interest rate on the deposit facility normally provides a floor for the overnight market interest rate.

The standing facilities are administered in a decentralised manner by the national central banks.

### 1.3.3 Minimum reserves

The ESCB's minimum reserve system applies to credit institutions in the euro area and primarily pursues the aims of stabilising money market interest rates and creating (or enlarging) a structural liquidity shortage. The reserve requirement of each institution is determined in relation to elements of its balance sheet. In order to pursue the aim of stabilising interest rates, the ESCB's minimum reserve system enables institutions to make use of averaging provisions. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over a

one-month maintenance period. Institutions' holdings of required reserves are remunerated at the rate of the ESCB's main refinancing operations.

## 1.4 Counterparties

The ESCB monetary policy framework is formulated with a view to ensuring participation of a broad range of counterparties. Institutions subject to minimum reserves according to Article 19.1 of the ESCB/ECB Statute may access the standing facilities and participate in open market operations based on standard tenders. The ESCB may select a limited number of counterparties to participate in fine-tuning operations. For outright transactions, no restrictions are placed a priori on the range of counterparties. For foreign exchange swaps conducted for monetary policy purposes, active players in the foreign exchange market are used. The set of counterparties for these operations is limited to those institutions selected for ESCB foreign exchange intervention operations which are located in the euro area.

## 1.5 Underlying assets

Pursuant to Article 18.1 of the ESCB/ECB Statute, all ESCB credit operations (i.e. liquidity-providing operations) have to be based on adequate collateral. The ESCB accepts a wide range of assets underlying its operations. A distinction is made, essentially for purposes internal to the ESCB, between two categories of eligible assets: "tier one" and "tier two" respectively. *Tier one* consists of marketable debt instruments fulfilling uniform euro area-wide eligibility criteria specified by the ECB. *Tier two* consists of additional assets, marketable and non-marketable, which are of particular importance for national financial markets and banking systems and for which eligibility criteria are established by the

national central banks, subject to ECB approval. No distinction is made between the two tiers with regard to the quality of the assets and their eligibility for the various types of ESCB monetary policy operations (except that tier two assets are normally not used by the ESCB in outright transactions). The assets eligible for ESCB monetary policy operations can also be used as underlying assets for intraday credit. Furthermore, ESCB counterparties may use eligible assets on a cross-border basis, i.e. they may borrow from the central bank

of the Member State in which they are established by making use of assets located in another Member State.

## **1.6 Modifications to the monetary policy framework**

The Governing Council of the ECB may, at any time, change the instruments, conditions, criteria and procedures for the execution of ESCB monetary policy operations.

**Table I**  
ESCB monetary policy operations

Monetary policy operations	Provision of liquidity	Types of transactions Absorption of liquidity	Maturity	Frequency	Procedure
<b>OPEN MARKET OPERATIONS</b>					
<b>Main refinancing operations</b>	<ul style="list-style-type: none"> <li>Reverse transactions</li> </ul>	–	<ul style="list-style-type: none"> <li>Two weeks</li> </ul>	<ul style="list-style-type: none"> <li>Weekly</li> </ul>	<ul style="list-style-type: none"> <li>Standard tenders</li> </ul>
<b>Longer-term refinancing operations</b>	<ul style="list-style-type: none"> <li>Reverse transactions</li> </ul>	–	<ul style="list-style-type: none"> <li>Three months</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> </ul>	<ul style="list-style-type: none"> <li>Standard tenders</li> </ul>
<b>Fine-tuning operations</b>	<ul style="list-style-type: none"> <li>Reverse transactions</li> <li>Foreign exchange swaps</li> </ul>	<ul style="list-style-type: none"> <li>Foreign exchange swaps</li> <li>Collection of fixed-term deposits</li> <li>Reverse transactions</li> </ul>	<ul style="list-style-type: none"> <li>Non-standardised</li> </ul>	<ul style="list-style-type: none"> <li>Non-regular</li> </ul>	<ul style="list-style-type: none"> <li>Quick tenders</li> <li>Bilateral procedures</li> </ul>
<b>Structural operations</b>	<ul style="list-style-type: none"> <li>Outright purchases</li> </ul>	<ul style="list-style-type: none"> <li>Outright sales</li> </ul>	–	<ul style="list-style-type: none"> <li>Non-regular</li> </ul>	<ul style="list-style-type: none"> <li>Bilateral procedures</li> </ul>
<b>Structural operations</b>	<ul style="list-style-type: none"> <li>Reverse transactions</li> </ul>	<ul style="list-style-type: none"> <li>Issuance of debt certificates</li> </ul>	<ul style="list-style-type: none"> <li>Standardised/ non-standardised</li> </ul>	<ul style="list-style-type: none"> <li>Regular and non-regular</li> </ul>	<ul style="list-style-type: none"> <li>Standard tenders</li> </ul>
<b>Structural operations</b>	<ul style="list-style-type: none"> <li>Outright purchases</li> </ul>	<ul style="list-style-type: none"> <li>Outright sales</li> </ul>	–	<ul style="list-style-type: none"> <li>Non-regular</li> </ul>	<ul style="list-style-type: none"> <li>Bilateral procedures</li> </ul>
<b>STANDING FACILITIES</b>					
<b>The marginal lending facility</b>	<ul style="list-style-type: none"> <li>Reverse transactions</li> </ul>	–	<ul style="list-style-type: none"> <li>Overnight</li> </ul>	<ul style="list-style-type: none"> <li>Access at the discretion of counterparties</li> </ul>	
<b>The deposit facility</b>	–	<ul style="list-style-type: none"> <li>Deposits</li> </ul>	<ul style="list-style-type: none"> <li>Overnight</li> </ul>	<ul style="list-style-type: none"> <li>Access at the discretion of counterparties</li> </ul>	

# Chapter 2

## **Eligible counterparties**

## Eligible counterparties

### 2.1 General eligibility criteria

Counterparties to ESCB monetary policy operations must fulfil certain eligibility criteria.<sup>6</sup> These criteria are defined with a view to giving a broad range of institutions access to ESCB monetary policy operations, enhancing equal treatment of institutions across the euro area and ensuring that counterparties fulfil certain operational and prudential requirements:

- Only institutions subject to the ESCB's minimum reserve system according to Article 19.1 of the ESCB/ECB Statute are eligible to be counterparties. Institutions which are exempt from their obligations under the ESCB's minimum reserve system (see Section 7.2) are not, as a rule, eligible to be counterparties to ESCB standing facilities and open market operations;
- Counterparties must be financially sound. They should be subject to at least one form of EU/EEA harmonised supervision by national authorities.<sup>7</sup> However, financially sound institutions subject to non-harmonised national supervision of a comparable standard can also be accepted as counterparties, e.g. branches established in the euro area of institutions that have their head office outside the European Economic Area;
- Counterparties must fulfil any operational criteria specified in the relevant contractual or regulatory arrangements applied by the respective national central bank (or the ECB), so as to ensure the efficient conduct of ESCB monetary policy operations.

These general eligibility criteria are uniform throughout the euro area. Institutions fulfilling the general eligibility criteria may:

- access the ESCB standing facilities; and
- participate in ESCB open market operations based on standard tenders.

Institutions may access the ESCB standing facilities and open market operations based on standard tenders only through the national central bank of the Member State in which the institution is established. If an institution has establishments (head office and branches) in more than one Member State, each establishment has access to these operations through the national central bank of the Member State in which it is located, notwithstanding the fact that the tender bids of an institution may only be submitted by one establishment (either the head office or a designated branch) in each Member State.

In accordance with provisions in the contractual or regulatory arrangements applied by the respective national central bank (or the ECB), the ESCB may withdraw counterparties' access to monetary policy instruments on grounds of prudence or in the event of severe or persistent failure to comply with obligations.

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<sup>6</sup> For outright transactions, no restrictions are placed a priori on the range of counterparties.

<sup>7</sup> Harmonised supervision of credit institutions is based on the Second Banking Co-ordination Directive (89/646/EEC), OJ L 386 of 30 December 1989, page 1 ff.

## **2.2 Selection of counterparties for quick tenders and bilateral operations**

For outright transactions, no restrictions are placed a priori on the range of counterparties.

For foreign exchange swaps executed for monetary policy purposes, counterparties must be able to conduct large-volume foreign exchange operations efficiently under all market conditions. The range of counterparties to foreign exchange swaps corresponds to the counterparties located in the euro area which are selected for ESCB foreign exchange intervention operations. The criteria and procedures applied for the selection of counterparties for foreign exchange intervention operations are presented in Annex 3.

For other operations based on quick tenders and bilateral procedures (fine-tuning reverse transactions and the collection of fixed-term deposits), each national central bank selects a set of counterparties from among the institutions established in its Member State which fulfil the general counterparty eligibility criteria. In this respect, activity in

the money market is the prime selection criterion. Other criteria which might be taken into account are, for example, the efficiency of the trading desk and the bidding potential.

In quick tenders and bilateral operations, the national central banks deal exclusively with the counterparties which are included in their respective set of fine-tuning counterparties. If, for operational reasons, a national central bank cannot deal in each operation with all its fine-tuning counterparties, the selection of counterparties in this Member State will be based on a rotation scheme in order to ensure equitable access.

The Governing Council of the ECB will decide whether, under exceptional circumstances, fine-tuning bilateral operations may be carried out by the ECB itself. If the ECB were to carry out bilateral operations, the selection of counterparties would in such cases be made by the ECB according to a rotation scheme among those counterparties in the euro area which are eligible for quick tenders and bilateral operations in order to ensure equitable access.

# Chapter 3

## **Open market operations**

## Open market operations

Open market operations play an important role in the ESCB's monetary policy, pursuing the aims of steering interest rates, managing the liquidity situation in the market and signalling the stance of monetary policy. With regard to their aim, regularity and procedures, ESCB open market operations can be divided into four categories: main refinancing operations, longer-term refinancing operations, fine-tuning operations and structural operations. *Reverse transactions* are the main open market instrument of the ESCB and can be employed in all four categories of operations. The *issuance of debt certificates* is the main instrument used for structural absorption operations. In addition, the ESCB has three other instruments available for the conduct of fine-tuning operations: *outright transactions*, *foreign exchange swaps* and the *collection of fixed-term deposits*. In the following sections, specific features of the different types of open market instruments used by the ESCB are presented in detail.

### 3.1 Reverse transactions

#### 3.1.1 General considerations

##### a. Type of instrument

Reverse transactions refer to operations where the ESCB buys or sells eligible assets under repurchase agreements or conducts credit operations against eligible assets as collateral. Reverse transactions are used for the main refinancing operations and the longer-term refinancing operations. In addition, the ESCB can use reverse transactions for structural and fine-tuning operations.

##### b. Legal nature

The national central banks may execute reverse transactions either in the form of repurchase agreements (i.e. the ownership of the asset is transferred to the creditor, while the parties agree to reverse the transaction through a re-transfer of the asset to the debtor at a future point in time) or as collateralised loans (i.e. an enforceable security interest is provided over the assets but, assuming fulfilment of the debt obligation, the ownership of the asset is retained by the debtor). Further provisions for reverse transactions based on repurchase agreements are specified in the contractual arrangements applied by the respective national central bank (or the ECB). Arrangements for reverse transactions based on collateralised loans take account of the different procedures and formalities required to enable the establishment and subsequent realisation of a relevant interest in the collateral (a pledge) which apply in different jurisdictions.

##### c. Interest terms

The difference between the purchase price and the repurchase price in a repurchase agreement corresponds to the interest due on the amount of money borrowed or lent over the maturity of the operation, i.e. the repurchase price includes the respective interest to be paid. The interest rate on a reverse transaction in the form of a collateralised loan is determined by applying the specified interest rate on the credit amount over the maturity of the operation. The interest rate applied to ESCB reverse open market operations is a simple interest rate with the day-count convention "actual/360".

### 3.1.2 Main refinancing operations

The main refinancing operations are the most important open market operations conducted by the ESCB, playing a pivotal role in pursuing the aims of steering interest rates, managing the liquidity situation in the market and signalling the stance of monetary policy. They also provide the bulk of refinancing to the financial sector. The operational features of the main refinancing operations can be summarised as follows:

- They are liquidity-providing operations;
- They are executed regularly each week;
- They normally have a maturity of two weeks;<sup>8</sup>
- They are executed in a decentralised manner by the national central banks;
- They are executed through standard tenders (as specified in Section 5.1);
- All counterparties fulfilling the general eligibility criteria (as specified in Section 2.1) may submit tender bids for the main refinancing operations;
- Both tier one and tier two assets (as specified in Chapter 6) are eligible as underlying assets for the main refinancing operations.

### 3.1.3 Longer-term refinancing operations

The ESCB also executes regular refinancing operations with a three-month maturity, which are aimed at providing additional longer-term refinancing to the financial sector. These operations represent only a limited part of the global refinancing volume. In these operations, the ESCB does not, as a rule, intend to send signals to the market and therefore normally acts as a rate taker. In order for the ESCB to act as a rate taker, longer-term refinancing operations are

usually executed in the form of variable rate tenders. From time to time the ECB indicates the operation volume to be allotted in forthcoming tenders. Under exceptional circumstances, the ESCB may also execute longer-term refinancing operations through fixed rate tenders.

The operational features of the longer-term refinancing operations can be summarised as follows:

- They are liquidity-providing operations;
- They are executed regularly each month;
- They normally have a maturity of three months;<sup>8</sup>
- They are executed in a decentralised manner by the national central banks;
- They are executed through standard tenders (as specified in Section 5.1);
- All counterparties fulfilling the general eligibility criteria (as specified in Section 2.1) may submit tender bids for the longer-term refinancing operations;
- Both tier one and tier two assets (as specified in Chapter 6) are eligible as underlying assets for the longer-term refinancing operations. However, national central banks have a choice of eligible assets, if they so wish, subject to the approval of the Governing Council of the ECB. For example, a national central bank could accept only (marketable and/or non-marketable) private debt instruments or require a minimum quota of these debt instruments.

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<sup>8</sup> The maturity of the main and the longer-term refinancing operations may occasionally vary depending on bank holidays in Member States. The main and the longer-term refinancing operations are executed according to a pre-announced tender operations calendar (see Section 5.1.2 and Annex 5).

### 3.1.4 Fine-tuning reverse operations

The ESCB can execute fine-tuning operations in the form of reverse open market transactions. Fine-tuning operations aim to manage the liquidity situation in the market and to steer interest rates, in particular in order to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the market. The potential need for rapid action in the case of unexpected market developments makes it desirable for the ESCB to retain a high degree of flexibility in the choice of procedures and operational features in the conduct of these operations:

- They can take the form of liquidity-providing or liquidity-absorbing operations;
- Their frequency is not standardised;
- Their maturity is not standardised;
- Liquidity-providing fine-tuning reverse transactions are normally executed through quick tenders, although the possibility of using bilateral procedures is not excluded (see Chapter 5);
- Liquidity-absorbing fine-tuning reverse transactions are executed, as a rule, through bilateral procedures (as specified in Section 5.2);
- They are normally executed in a decentralised manner by the national central banks (the Governing Council of the ECB will decide whether, under exceptional circumstances, bilateral fine-tuning reverse operations may be executed by the ECB);
- The ESCB may select, according to the criteria specified in Section 2.2, a limited number of counterparties to participate in fine-tuning reverse operations;
- Both tier one and tier two assets (as

specified in Chapter 6) are eligible as underlying assets for fine-tuning reverse operations.

### 3.1.5 Structural reverse operations

The ESCB may execute structural operations in the form of reverse open market transactions aimed at adjusting the structural position of the ESCB vis-à-vis the financial sector. The operational features of these operations can be summarised as follows:

- They are liquidity-providing operations;
- Their frequency can be regular or non-regular;
- Their maturity is not standardised a priori;
- They are executed through standard tenders (as specified in Section 5.1);
- They are executed in a decentralised manner by the national central banks;
- All counterparties fulfilling the general eligibility criteria (as specified in Section 2.1) may submit tender bids for structural reverse operations;
- Both tier one and tier two assets (as specified in Chapter 6) are eligible as underlying assets for structural reverse operations.

## 3.2 Outright transactions

### a. Type of instrument

Outright open market transactions refer to operations where the ESCB buys or sells eligible assets outright on the market. Outright open market operations are executed only for structural and fine-tuning purposes.

**b. Legal nature**

An outright transaction implies a full transfer of ownership from the seller to the buyer with no connected reverse transfer of ownership. The transactions are executed in accordance with the market conventions for the debt instrument used in the transaction.

**c. Price terms**

In the calculation of prices, the ESCB acts in accordance with the most widely accepted market convention for the debt instruments used in the transaction.

**d. Other operational features**

The operational features of ESCB outright transactions can be summarised as follows:

- They can take the form of liquidity-providing (outright purchase) or liquidity-absorbing (outright sales) operations;
- Their frequency is not standardised;
- They are executed through bilateral procedures (as specified in Section 5.2);
- They are normally executed in a decentralised manner by the national central banks (the Governing Council of the ECB will decide whether, under exceptional circumstances, fine-tuning outright operations may be executed by the ECB);
- No restrictions are placed a priori on the range of counterparties to outright transactions;
- Only tier one instruments (as specified in Section 6.1) are normally used as underlying assets in outright transactions.

### **3.3 Issuance of ECB debt certificates**

**a. Type of instrument**

The ECB may issue debt certificates. Debt certificates are issued with the aim of adjusting the structural position of the ESCB vis-à-vis the financial sector so as to create (or enlarge) a liquidity shortage in the market.

**b. Legal nature**

The certificates constitute a debt obligation of the ECB vis-à-vis the holder of the certificate. The certificates are issued and held in a book-entry form in securities depositories in the euro area. The ECB does not impose any restrictions on the transferability of the certificates. Further provisions related to the certificates are contained in the terms and conditions for ECB debt certificates.

**c. Interest terms**

The certificates are issued in discount form, i.e. they are issued at below the nominal amount and are redeemed at maturity at the nominal amount. The difference between the issue amount and the redemption amount equals the interest accrued on the issue amount, at the agreed interest rate, over the maturity of the certificate. The interest rate applied is a simple interest rate with the day-count convention "actual/360". The calculation of the issue amount is shown in Box I.

## Box 1

### Issuance of ECB debt certificates

Where:

- N : Nominal amount of the debt certificate
- $r_I$  : Interest rate (as a %)
- D : Maturity of the debt certificate (in days)
- $P_T$  : Issue amount of the debt certificate

The issue amount is:

$$P_T = N \times \frac{1}{1 + \frac{r_I \times D}{36,000}}$$

#### d. Other operational features

The operational features of the issuance of ECB debt certificates can be summarised as follows:

- The certificates are issued in order to absorb liquidity from the market;
- The certificates can be issued on a regular or non-regular basis;
- The certificates have a maturity of less than twelve months;
- The certificates are issued through standard tenders (as specified in Section 5.1);
- The certificates are tendered and settled in a decentralised manner by the national central banks;
- All counterparties fulfilling the general eligibility criteria (as specified in Section 2.1) may submit tender bids for the subscription of ECB debt certificates.

### 3.4 Foreign exchange swaps

#### a. Type of instrument

Foreign exchange swaps executed for monetary policy purposes consist of simultaneous spot and forward transactions

of the euro against foreign currency. They are used for fine-tuning purposes, mainly with the aim of managing the liquidity situation in the market and steering interest rates.

#### b. Legal nature

Foreign exchange swaps executed for monetary policy purposes refer to operations where the ESCB buys (or sells) euro spot against a foreign currency and, at the same time, sells (or buys) it back forward at a specified repurchase date. Further provisions for foreign exchange swaps are specified in the contractual arrangement applied by the respective national central bank (or the ECB).

#### c. Currency and exchange rate terms

As a rule, the ESCB operates only in widely traded currencies and in accordance with standard market practice. In each foreign exchange swap operation, the ESCB and the counterparties agree on the swap points for the transaction. The swap points are the difference between the exchange rate of the forward transaction and the exchange rate of the spot transaction. The swap points of the euro vis-à-vis the foreign currency are quoted according to general market conventions. The exchange rate terms of foreign exchange swaps are specified in Box 2.

**Box 2****Foreign exchange swaps**

$S$  : Spot (at the transaction date of the foreign exchange swap) of the exchange rate between the euro (EUR) and a foreign currency ABC (ABC)

$$S = \frac{x \times ABC}{1 \times EUR}$$

$F_M$  : Forward exchange rate between the euro and a foreign currency ABC at the repurchase date of the swap (M)

$$F_M = \frac{y \times ABC}{1 \times EUR}$$

$\Delta_M$  : Forward points between the euro and ABC for the repurchase date of the swap (M)

$$\Delta_M = F_M - S$$

$N(\cdot)$ : Spot amount of currency;  $N(\cdot)_M$  is the forward amount of currency:

$$N(ABC) = N(EUR) \times S \quad \text{or} \quad N(EUR) = \frac{N(ABC)}{S}$$

$$N(ABC)_M = N(EUR)_M \times F_M \quad \text{or} \quad N(EUR)_M = \frac{N(ABC)_M}{F_M}$$

**d. Other operational features**

The operational features of foreign exchange swaps can be summarised as follows:

- They can take the form of liquidity-providing or liquidity-absorbing operations;
- Their frequency is not standardised;
- Their maturity is not standardised;
- They are executed through quick tenders or bilateral procedures (see Chapter 5);
- They are normally executed in a decentralised manner by the national central banks (the Governing Council of the ECB will decide whether, under exceptional circumstances, bilateral foreign exchange swaps may be executed by the ECB);

- The ESCB may select, according to the criteria specified in Section 2.2 and Annex 3, a limited number of counterparties to participate in foreign exchange swaps.

**3.5 Collection of fixed-term deposits****a. Type of instrument**

The ESCB may invite counterparties to place remunerated fixed-term deposits with the national central bank in the Member State in which the counterparty is established. The collection of fixed-term deposits is envisaged only for fine-tuning purposes in order to absorb liquidity in the market.

**b. Legal nature**

The deposits accepted from counterparties are for a fixed term and with a fixed rate of interest. No collateral is given by the

national central banks in exchange for the deposits.

**c. Interest terms**

The interest rate applied to the deposit is a simple interest rate with the day-count convention “actual/360”. Interest is paid at maturity of the deposit.

**d. Other operational features**

The operational features of the collection of fixed-term deposits can be summarised as follows:

- The deposits are collected in order to absorb liquidity;
- The frequency with which deposits are collected is not standardised;

- The maturity of the deposits is not standardised;
- The collection of deposits is normally executed through quick tenders, although the possibility of using bilateral procedures is not excluded (see Chapter 5);
- The collection of deposits is normally executed in a decentralised manner by the national central banks (the Governing Council of the ECB will decide whether, under exceptional circumstances, the bilateral collection of fixed-term deposits may be executed by the ECB);<sup>9</sup>
- The ESCB may select, according to the criteria specified in Section 2.2, a limited number of counterparties for the collection of fixed-term deposits.

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<sup>9</sup> Fixed-term deposits are held on accounts with the national central banks; this would be the case even if such operations were to be executed in a centralised manner by the ECB.

# Chapter 4

## **Standing facilities**

## Standing facilities

### 4.1 The marginal lending facility

#### a. Type of instrument

Counterparties may use the marginal lending facility to obtain overnight liquidity from national central banks at a pre-specified interest rate against eligible assets (as specified in Chapter 6). The facility is intended to satisfy counterparties' temporary liquidity needs. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight market interest rate. The terms and conditions of the facility are identical throughout the euro area.

#### b. Legal nature

The national central banks may provide liquidity under the marginal lending facility either in the form of overnight repurchase agreements (i.e. the ownership of the asset is transferred to the creditor, while the parties agree to reverse the transaction through a re-transfer of the asset to the debtor on the next business day) or as overnight collateralised loans (i.e. an enforceable security interest is provided over the assets but, assuming fulfilment of the debt obligation, ownership of the asset is retained by the debtor). Further provisions for repurchase agreements are specified in the contractual arrangements applied by the respective national central bank. Arrangements for providing the liquidity in the form of collateralised loans take account of the different procedures and formalities required to enable the establishment and subsequent realisation of a relevant interest in the collateral (a pledge) which apply in different jurisdictions.

#### c. Access conditions

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 national central bank in the Member State in which the institution is established. Access to the marginal lending facility is granted only on days when the relevant national RTGS (real-time gross settlement) system and securities settlement system(s) are operational.

At end-of-day, counterparties' intraday debit positions on their settlement account with the national central banks are automatically considered to be a request for recourse to the marginal lending facility. The procedures for end-of-day access to the marginal lending facility are specified in Section 5.3.3.

A counterparty may also be granted access to the marginal lending facility by sending a request to the national central bank in the Member State in which the counterparty is established. In order for the national central bank to process the request on the same day, the request must be received by the national central bank before 6 p.m. ECB time (C.E.T.).<sup>10</sup> In the request, the amount of credit is to be stated and, if underlying assets for the transaction have not already been pre-deposited with or pre-delivered to the national central bank, the underlying assets to be delivered for the transaction are to be specified.

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<sup>10</sup> In some Member States, the national central bank (or some of its branches) may not be open for the purpose of conducting monetary policy operations on certain ESCB business days due to national or regional bank holidays. In this case, the relevant national central bank is responsible for informing the counterparties in advance of the arrangements to be applied for access to the marginal lending facility in relation to the bank holiday.

Apart from the requirement to present sufficient underlying eligible assets, there is no limit to the amount of funds to be advanced under the marginal lending facility. However, the ESCB may limit or suspend individual counterparties' access to the facility in exceptional circumstances.

#### **d. Maturity and interest terms**

The maturity of credit extended under the facility is overnight. For counterparties participating directly in TARGET, the credit is repaid on the next day on which the relevant national RTGS system and the national securities settlement system(s) are operational, at the time at which those systems open.

The interest rate is announced in advance by the ESCB and is calculated as a simple interest rate with the day-count convention "actual/360". The ECB may change the interest rate at any time, with effect not earlier than the following ESCB business day.<sup>11</sup> Interest under the facility is payable with the repayment of the credit.

#### **e. Suspension of the facility**

Access to the facility is granted only in accordance with the objectives and general monetary policy considerations of the ECB. The ECB may adapt the conditions of the facility or suspend it at any time.

## **4.2 The deposit facility**

### **a. Type of instrument**

Counterparties can use the deposit facility to make overnight deposits with national central banks. The deposits are remunerated at a pre-specified interest rate. Under normal circumstances, the interest rate on the facility provides a floor for the overnight market interest rate. The terms and

conditions of the deposit facility are identical throughout the euro area.<sup>12</sup>

### **b. Legal nature**

The overnight deposits accepted from counterparties are remunerated at a fixed rate of interest. No collateral is given to the counterparty in exchange for the deposits.

### **c. Access conditions<sup>13</sup>**

Institutions fulfilling the general counterparty eligibility criteria specified in Section 2.1 may access the deposit facility. Access to the deposit facility is granted through the national central bank in the Member State in which the institution is established. Access to the deposit facility is granted only on days when the relevant national RTGS system is open.

To be granted access to the deposit facility, the counterparty must send a request to the national central bank in the Member State in which the counterparty is established. In order for the national central bank to process the request on the same day, the request must be received by the national central bank before 6.30 p.m. ECB

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<sup>11</sup> Throughout this document, the term "ESCB business day" refers to any day on which the ECB and at least one national central bank are open for the purpose of conducting ESCB monetary policy operations.

<sup>12</sup> Operational differences resulting from the existence of different account structures across the national central banks may exist at the start of Stage Three.

<sup>13</sup> Owing to the existence of different account structures across the national central banks, the ECB may allow national central banks to apply access conditions at the start of Stage Three which are slightly different from those referred to here. The national central banks will provide information on any such deviations from the access conditions described in this document.

time (C.E.T.).<sup>14</sup> In the request, the amount to be deposited under the facility is to be stated.

There is no limit to the amount a counterparty may deposit under the facility.

**d. Maturity and interest terms**

The maturity of deposits under the facility is overnight. For counterparties participating directly in TARGET, deposits held under the facility mature on the next day on which the relevant national RTGS system is operational, at the time at which the system opens. The interest rate is announced in

advance by the ESCB and is calculated as a simple interest rate with the day-count convention "actual/360". The ECB may change the interest rate at any time, with effect not earlier than the following ESCB business day. Interest on the deposits is payable at maturity of the deposit.

**e. Suspension of the facility**

Access to the facility is granted only in accordance with the objectives and general monetary policy considerations of the ECB. The ECB may adapt the conditions of the facility or suspend it at any time.

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<sup>14</sup> In some Member States the national central bank (or some of its branches) may not be open for the purpose of conducting ESCB monetary policy operations on certain ESCB business days owing to national or regional bank holidays. In such cases, the relevant national central bank is responsible for informing the counterparties in advance of the arrangements to be made for access to the deposit facility in relation to the bank holiday.

# Chapter 5

## **Procedures**

## Procedures

### 5.1 Tender procedures

#### 5.1.1 General considerations

ESCB open market operations are normally executed in the form of tender procedures. The ESCB tender procedures are performed in six operational steps as specified in Box 3.

The ESCB distinguishes between two different types of tender procedures: standard tenders and quick tenders. The procedures for standard and quick tenders are identical except for the time frame and the range of counterparties.

#### a. Standard tenders

Standard tenders are executed within 24 hours from the announcement of the tender to certification of the allotment result (where the time between the submission deadline and the announcement of the allotment result is approximately two hours). Chart 1 gives an overview of the normal time frame for the operational steps for standard tenders. The ECB may decide to adjust the time frame in individual operations, if deemed appropriate.

The main refinancing operations, the longer-term refinancing operations and structural operations (with the exception of outright transactions) are always executed in the form of standard tenders. Counterparties fulfilling the general eligibility criteria specified in Section 2.1 may participate in standard tenders.

#### Box 3

##### Operational steps for tender procedures

###### Step 1. Tender announcement

- a. Announcement by the ECB through public wire services
- b. Announcement by the national central banks through national wire services and directly to individual counterparties (if deemed necessary)

###### Step 2. Counterparties' preparation and submission of bids

###### Step 3. Compilation of bids by the ESCB

###### Step 4. Tender allotment and announcement of tender results

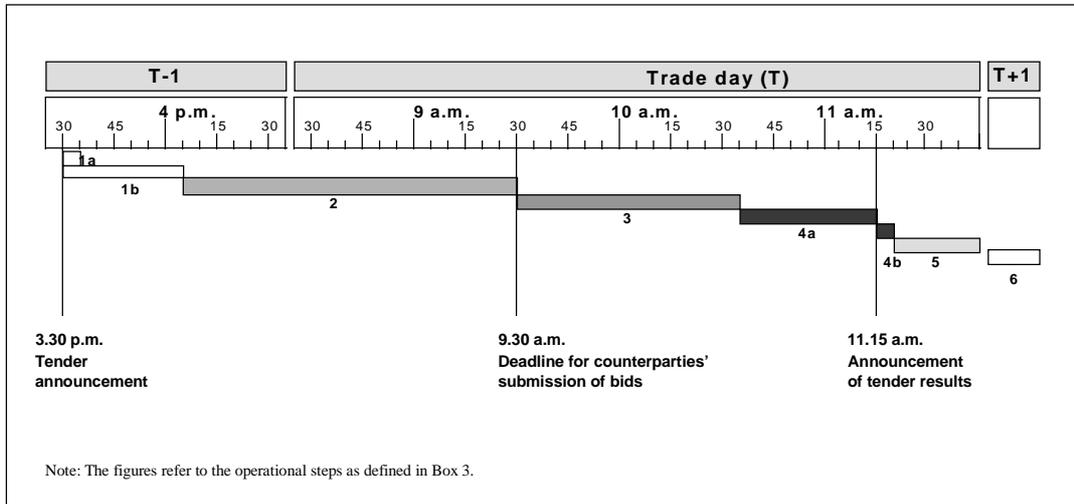
- a. ECB allotment decision
- b. Announcement of the allotment result

###### Step 5. Certification of individual allotment results

###### Step 6. Settlement of the transactions (see Section 5.3)

### Chart 1

Normal time frame for the operational steps for standard tenders  
(times are stated in ECB time (C.E.T.))



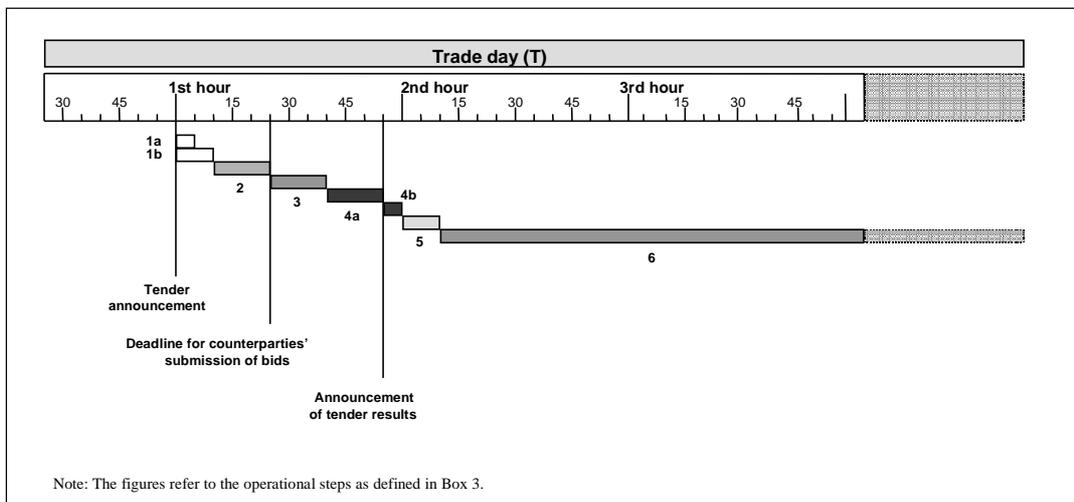
#### b. Quick tenders

Quick tenders are normally executed within one hour from the announcement of the tender to certification of the allotment result. The normal time frame for the operational steps for quick tenders is specified in Chart 2. The ECB may decide

to adjust the time frame in individual operations, if deemed appropriate. Quick tenders are only used for the execution of fine-tuning operations. The ESCB may select, according to the criteria and procedures specified in Section 2.2, a limited number of counterparties to participate in quick tenders.

### Chart 2

Normal time frame for the operational steps for quick tenders



c. *Fixed rate and variable rate tenders*

The ESCB has the option of conducting either fixed rate (volume) or variable rate (interest) tenders.<sup>15</sup> In a fixed rate tender, the ECB specifies the interest rate in advance and participating counterparties bid the amount of money they want to transact at the fixed interest rate.<sup>16</sup> In a variable rate tender, counterparties bid the amounts of money and the interest rates at which they want to enter into transactions with the national central banks.<sup>17</sup>

5.1.2 *Tender operations calendar*

a. *Main and longer-term refinancing operations*

The main and the longer-term refinancing operations are executed according to an indicative calendar published by the ESCB. The calendar is published at least three months before the start of the year for which it is valid. The normal trade days for the main and the longer-term refinancing operations are specified in Table 2. The ECB aims to ensure that counterparties in all Member States can participate in the main and the longer-term refinancing operations. Therefore, when compiling the calendar for these operations, the ECB makes appropriate adjustments to the normal schedule so as to take into account bank holidays in the individual Member States.<sup>18</sup>

**Table 2**

Normal trade days for the main and the longer-term refinancing operations

Type of operation	Normal trade day (T)
Main refinancing operations	Each Tuesday
Longer-term refinancing operations	The first Wednesday of each minimum reserve maintenance period

<sup>15</sup> For the longer-term refinancing operations, the ECB may decide to adapt the features of the tender procedures in order to ensure that the ESCB does not, as a rule, send signals to the market and therefore normally acts as a rate taker.

<sup>16</sup> In fixed rate foreign exchange swap tenders, the ECB fixes the swap points of the operation and the counterparties offer the amount of currency kept as fixed that they wish to sell (and buy back) or buy (and sell back) at that rate.

<sup>17</sup> In variable rate foreign exchange swap tenders, the counterparties bid the amount of the currency kept as fixed and the swap point quotation at which they wish to enter into the operation.

<sup>18</sup> The indicative calendar for the ESCB's tender operations in 1999 is contained in Annex 5.

### **b. Structural operations**

Structural operations through standard tenders are not executed according to any pre-specified calendar. However, structural operations are normally conducted and settled only on days which are NCB business days<sup>19</sup> in all Member States.

### **c. Fine-tuning operations**

Fine-tuning operations are not executed according to any pre-specified calendar. The ECB may decide to conduct fine-tuning operations on any ESCB business day. Only national central banks of Member States where the trade day, the settlement day and the reimbursement day are NCB business days participate in such operations.

### **5.1.3 Announcement of tender operations**

ESCB standard tenders are publicly announced by means of wire services.<sup>20</sup> In addition, national central banks may announce the tender operation directly to counterparties without access to wire services. The public tender announcement message normally contains the following information:

- the reference number of the tender operation;
- the date of the tender operation;
- the type of operation (provision or absorption of liquidity and the type of monetary policy instrument to be used);
- the maturity of the operation;
- the type of auction (fixed rate or variable rate tender);
- the method of allotment (“Dutch” or “American” auction, as defined in Section 5.1.5 d);
- the intended operation volume (normally only in the case of the longer-term refinancing operations);
- the fixed tender interest rate/price/swap point (in the case of fixed rate tenders);
- the minimum/maximum accepted interest rate/price/swap point (if applicable);
- the start date and the maturity date of the operation (if applicable) or the value date and maturity date of the instrument (in the case of the issuance of debt certificates);
- the currencies involved and the currency, the amount of which is kept fixed (in the case of foreign exchange swaps);
- the reference spot exchange rate to be used for the calculation of bids (in the case of foreign exchange swaps);
- the maximum bid limit (if any);
- the minimum allotment (if any);
- the time schedule for the submission of bids;
- the denomination of the certificates (in the case of the issuance of debt certificates);
- the ISIN code of the issue (in the case of the issuance of debt certificates).

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<sup>19</sup> Throughout this document, the term “NCB business day” refers to any day on which the national central bank of a specific Member State is open for the purpose of conducting ESCB monetary policy operations. In some Member States branches of the national central bank may be closed on NCB business days owing to local or regional bank holidays. In such cases, the relevant national central bank is responsible for informing the counterparties in advance of the arrangements to be made for transactions involving those branches.

<sup>20</sup> The wire services to be used by the ESCB in its communication of monetary policy operations to the public are specified in Annex 6.

With a view to enhancing transparency in its fine-tuning operations, the ESCB normally announces quick tenders publicly in advance. However, under exceptional circumstances, the ECB may decide not to announce quick tenders publicly in advance. The announcement of quick tenders follows the same procedures as those for standard tenders. In a quick tender, regardless of whether it is announced publicly or not, the selected counterparties are contacted directly by the national central banks.

#### **5.1.4 Counterparties' preparation and submission of tender bids**

Counterparties' tender bids must be in a form that follows the pro forma example provided by the national central banks for the relevant operation. The tender bids must be submitted to the national central bank of a Member State in which the institution has an establishment (head office or branch). The tender bids of an institution may only be submitted by one establishment (either the head office or a designated branch) in each Member State.

In fixed rate tenders, counterparties shall state in their bids the amount of money that they are willing to transact with the national central banks.<sup>21</sup>

In variable rate tenders, counterparties may submit bids for up to ten different interest rate/price/swap point levels. In each bid they shall state the amount of money that they are willing to transact with the national central banks, and the respective interest rate.<sup>22, 23</sup> The interest rates bid must be expressed as multiples of 0.01 percentage point. In the case of a variable rate foreign exchange swap tender, the swap points are to be quoted according to standard market conventions and bids must be expressed as multiples of 0.01 swap point.

For the main refinancing operations, the minimum bid amount is EUR 1,000,000. Bids exceeding the minimum bid amount must be expressed as multiples of EUR 100,000. The same minimum bid and multiple amounts are applied in fine-tuning and structural operations. The minimum bid amount is applied to each individual interest rate/price/swap point level.

For the longer-term refinancing operations, each national central bank defines a minimum bid amount in the range from EUR 10,000 to EUR 1,000,000. Bids exceeding the minimum bid amount must be expressed as multiples of EUR 10,000. The minimum bid amount is applied to each individual interest rate level.

The ECB may impose a maximum bid limit in order to prevent disproportionately large bids. Any such maximum bid limit is always specified in the public tender announcement message.

Counterparties are expected always to be in a position to cover their tender bids by a sufficient amount of eligible underlying assets. The contractual or regulatory arrangements applied by the respective national central bank allow the imposition of penalties if a counterparty is not able to transfer a sufficient amount of underlying assets to settle the amount of liquidity it has been allotted in a tender operation. The contractual or regulatory arrangements

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<sup>21</sup> In fixed rate foreign exchange swaps, the amount of the currency kept fixed that the counterparty is willing to transact with the ESCB is to be stated.

<sup>22</sup> With regard to the issuance of ECB debt certificates, the ECB may decide that bids are to be expressed in the form of a price rather than an interest rate. In such cases, prices shall be quoted as a percentage of the nominal amount.

<sup>23</sup> In variable rate foreign exchange swaps, the amount of the currency kept fixed that the counterparty is willing to transact with the ESCB and the respective swap point level are to be stated.

applied by the respective national central bank also provide for the possibility to check underlying assets available to counterparties in order to detect cases of excessive bidding and to impose penalties if such excessive bidding is evidenced.<sup>24</sup>

Bids are revocable up to the tender submission deadline. Bids submitted after the deadline specified in the tender announcement message are invalid. Respect of the deadline is judged by the national central banks. The national central banks discard all the bids of a counterparty if the aggregate amount bid exceeds any maximum bid limit established by the ECB. The national central banks also discard any bid which is below the minimum bid amount. Furthermore, the national central banks may discard bids which are incomplete or which do not follow the pro forma example.

If a bid is discarded, the respective national central bank informs the counterparty about its decision prior to the tender allotment.

### 5.1.5 Tender allotment procedures

#### a. Fixed rate tender operations

In the allotment of a fixed rate tender, the bids received from counterparties are added together. If the aggregate amount bid exceeds the total amount of liquidity to be allotted, the submitted bids will be satisfied pro rata, according to the ratio of the amount to be allotted to the aggregate amount bid (see Box 4). The amount allotted to each counterparty is rounded to the nearest euro. However, the ECB may decide to allot a minimum amount to each bidder in fixed rate tenders.

#### Box 4

##### Allotment of fixed rate tenders

Where:

- A : total amount allotted
- n : total number of counterparties
- $a_i$  : bid amount of the  $i$ th counterparty
- all% : percentage of allotment
- $all_i$  : total amount allotted to the  $i$ th counterparty

The percentage of allotment is:

$$all\% = \frac{A}{\sum_{i=1}^n a_i}$$

The amount allotted to the  $i$ th counterparty is:

$$all_i = all\% \times (a_i)$$

<sup>24</sup> Excessive bidding is considered to have taken place if the counterparty could not possibly have delivered sufficient underlying assets to cover its tender bid, when taking account of its holdings of securities and its borrowing potential.

**b. Variable rate tenders in euro**

In the allotment of liquidity-providing variable rate tenders in euro, bids are listed in diminishing order of offered interest rates. Bids with the highest interest rate levels are satisfied as having priority and bids with successively lower interest rates are accepted until the total liquidity to be allotted is exhausted. If, at the lowest interest rate level accepted (i.e. the marginal interest rate), the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount is allocated pro rata among the bids according to the ratio of the remaining amount to be allotted to the total amount bid at the marginal interest rate (see Box 5). The amount allotted to each counterparty is rounded to the nearest euro.

In the allotment of liquidity-absorbing variable rate tenders (which may be used for the issuance of debt certificates and the collection of fixed-term deposits), bids are listed in increasing order of offered interest

rates (or diminishing order of offered prices). Bids with the lowest interest rate (highest price) levels are satisfied as having priority and bids with successively higher interest rates (lower price bids) are accepted until the total liquidity to be absorbed is exhausted. If, at the highest interest rate (lowest price) level accepted (i.e. the marginal interest rate/price), the aggregate bid amount exceeds the remaining amount to be allotted, the remaining amount is allocated pro rata among the bids according to the ratio of the remaining amount to be allotted to the total bid amount at the marginal interest rate/price (see Box 5). For the issuance of debt certificates, the amount allotted to each counterparty is rounded to the nearest multiple of the denomination of the debt certificates. For other liquidity-absorbing operations, the amount allotted to each counterparty is rounded to the nearest euro.

The ECB may decide to allot a minimum amount to each successful bidder in variable rate tenders.

**Box 5****Allotment of variable rate tenders in euro***(the example refers to bids quoted in the form of interest rates)*

Where:

- A : total amount allotted  
 $r_s$  : sth interest rate bid by the counterparties  
n : total number of counterparties  
 $a(r_s)_i$  : amount bid at the sth interest rate ( $r_s$ ) by the *i*th counterparty  
 $a(r_s)$  : total amount bid at the sth interest rate ( $r_s$ )

$$a(r_s) = \sum_{i=1}^n a(r_s)_i$$

- $r_m$  : marginal interest rate  
 $r_1 \geq r_s \geq r_m$  for a liquidity-providing tender,  
 $r_m \geq r_s \geq r_1$  for a liquidity-absorbing tender
- $r_{m-1}$  : interest rate before the marginal interest rate (last interest rate at which bids are completely satisfied),  
 $r_{m-1} > r_m$  for a liquidity-providing tender,  
 $r_m > r_{m-1}$  for a liquidity-absorbing tender
- $all\%(r_m)$  : percentage of allotment at the marginal interest rate  
 $all(r_s)_i$  : allotment to the *i*th counterparty at the sth interest rate  
 $all_i$  : total amount allotted to the *i*th counterparty

The percentage of allotment at the marginal interest rate is:

$$all\%(r_m) = \frac{A - \sum_{s=1}^{m-1} a(r_s)}{a(r_m)}$$

The allotment to the *i*th counterparty at the marginal interest rate is:

$$all(r_m)_i = all\%(r_m) \times a(r_m)_i$$

The total amount allotted to the *i*th counterparty is:

$$all_i = \sum_{s=1}^{m-1} a(r_s)_i + all(r_m)_i$$

**c. Variable rate foreign exchange swap tenders**

In the allotment of liquidity-providing variable rate foreign exchange swap tenders, bids are listed in increasing order of swap point quotations.<sup>25</sup> The bids with the lowest swap point quotations are satisfied as having priority and successively higher swap point quotations are accepted until the total

<sup>25</sup> Swap point quotations are listed in increasing order taking into account the sign of the quotation, which depends on the sign of the interest rate differential between the foreign currency and the euro. If, for the maturity of the swap, the foreign currency interest rate is higher than the corresponding interest rate for the euro, the swap point quotation is positive (euro quoted at premium against the foreign currency). Conversely, if the foreign currency interest rate is lower than the corresponding interest rate for the euro, the swap point quotation is negative (euro quoted at discount against the foreign currency).

amount of the fixed currency to be allotted is exhausted. If, at the highest swap point quotation accepted (i.e. the marginal swap point quotation), the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount is allocated pro rata among the bids according to the ratio of the remaining amount to be allotted

to the total amount bid at the marginal swap point quotation (see Box 6). The amount allotted to each counterparty is rounded to the nearest euro.

In the allotment of liquidity-absorbing variable rate foreign exchange swap tenders, bids are listed in diminishing order of offered

## Box 6

### Allotment of variable rate foreign exchange swap tenders

Where:

- A : total amount allotted
- $\Delta_s$  : sth swap point quotation bid by the counterparties
- n : total number of counterparties
- $a(\Delta_s)_i$  : amount bid at the sth swap point quotation ( $\Delta_s$ ) by the ith counterparty
- $a(\Delta_s)$  : total amount bid at the sth swap point quotation ( $\Delta_s$ )

$$a(\Delta_s) = \sum_{i=1}^n a(\Delta_s)_i$$

- $\Delta_m$  : marginal swap point quotation  
 $\Delta_m \geq \Delta_s \geq \Delta_1$  for a liquidity-providing foreign exchange swap,  
 $\Delta_1 \geq \Delta_s \geq \Delta_m$  for a liquidity-absorbing foreign exchange swap
- $\Delta_{m-1}$  : swap point quotation before the marginal swap point quotation (last swap point quotation at which bids are completely satisfied),  
 $\Delta_m > \Delta_{m-1}$  for a liquidity-providing foreign exchange swap,  
 $\Delta_{m-1} > \Delta_m$  for a liquidity-absorbing foreign exchange swap
- $all\%(\Delta_m)$  : percentage of allotment at the marginal swap point quotation
- $all(\Delta_s)_i$  : allotment to the ith counterparty at the sth swap point quotation
- $all_i$  : total amount allotted to the ith counterparty

The percentage of allotment at the marginal swap point quotation is:

$$all\%(\Delta_m) = \frac{A - \sum_{s=1}^{m-1} a(\Delta_s)}{a(\Delta_m)}$$

The allotment to the ith counterparty at the marginal swap point quotation is:

$$all(\Delta_m)_i = all\%(\Delta_m) \times a(\Delta_m)_i$$

The total amount allotted to the ith counterparty is:

$$all_i = \sum_{s=1}^{m-1} a(\Delta_s)_i + all(\Delta_m)_i$$

swap point quotations. The bids with the highest swap point quotations are satisfied as having priority and successively lower swap point quotations are accepted until the total amount of the fixed currency to be absorbed is exhausted. If, at the lowest swap point quotation accepted (i.e. the marginal swap point quotation), the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount is allocated pro rata among the bids according to the ratio of the remaining amount to be allotted to the total amount bid at the marginal swap point quotation (see Box 6). The amount allotted to each counterparty is rounded to the nearest euro.

#### **d. Type of auction**

For variable rate tenders, the ESCB may apply either single rate or multiple rate auction procedures. In a single rate auction ("Dutch auction"), the allotment interest rate/price/swap point applied for all satisfied bids is equal to the marginal interest rate/price/swap point (i.e. the interest rate/price/swap point at which the total allotment was exhausted). In a multiple rate auction ("American auction"), the allotment interest rate/price/swap point is equal to the interest rate/price/swap point offered for each individual bid.

#### **5.1.6 Announcement of tender results**

The results of standard and quick tenders are announced publicly by means of wire services. In addition, national central banks may announce the allotment result directly to counterparties without access to wire services. The public tender result message normally contains the following information:

- reference number of the tender operation;
- the date of the tender operation;

- the type of operation;
- the maturity of the operation;
- the total amount bid by ESCB counterparties;
- the number of bidders;
- the currencies involved (in the case of foreign exchange swaps);
- the total amount allotted;
- the percentage of allotment (in the case of fixed rate tenders);
- the spot exchange rate (in the case of foreign exchange swaps);
- the marginal interest rate/price/swap point accepted and the percentage of allotment at the marginal interest rate/price/swap point (in the case of variable rate tenders);
- the minimum bid rate, maximum bid rate and weighted average allotment rate (in the case of multiple rate auctions);
- the start date and the maturity date of the operation (if applicable) or the value date and maturity date of the instrument (in the case of the issuance of debt certificates);
- the minimum allotment (if any);
- the denomination of the certificates (in the case of the issuance of debt certificates);
- the ISIN code of the issue (in the case of the issuance of debt certificates).

The national central banks will directly certify the individual allotment result to successful counterparties.

## **5.2 Procedures for bilateral operations**

### **a. General considerations**

The national central banks may execute operations on the basis of bilateral procedures.<sup>26</sup> Bilateral procedures may be used for fine-tuning open market operations and structural outright operations. Bilateral procedures are defined in a broad sense as any procedures where the ESCB conducts a transaction with one or a few counterparties without a tender. In this respect, two different types of bilateral procedures can be distinguished: operations where counterparties are contacted directly by the ESCB, and operations executed through stock exchanges and market agents.

### **b. Direct contact with counterparties**

In this procedure, the national central banks directly contact one or a few domestic counterparties, which are selected according to the criteria specified in Section 2.2. According to the precise instructions given by the ECB, the national central banks decide whether to enter into a deal with the counterparties. The transactions are settled through the national central banks.

If the Governing Council of the ECB were to decide that, under exceptional circumstances, bilateral operations could also be executed by the ECB itself (or by one or a few national central banks acting as the operating arm of the ECB), the procedures for such operations would be adapted accordingly. In this case, the ECB (or the national central bank(s) acting as the operating arm of the ECB) would directly contact one or a few counterparties in the euro area, selected according to the criteria specified in Section 2.2. The ECB (or the national central bank(s) acting as the operating arm of the ECB) would decide whether to enter into a deal with the counterparties. The transactions would

nevertheless be settled in a decentralised manner through the national central banks.

Bilateral operations through direct contact with counterparties can be applied for reverse transactions, outright transactions, foreign exchange swaps and the collection of fixed-term deposits.

### **c. Operations executed through stock exchanges and market agents**

The national central banks can execute outright transactions through stock exchanges and market agents. For these operations, the range of counterparties is not restricted a priori and the procedures are adapted to the market conventions for the debt instruments transacted. The Governing Council of the ECB will decide whether, under exceptional circumstances, the ECB itself (or one or a few national central banks acting as the operating arm of the ECB) may execute fine-tuning outright operations through stock exchanges and market agents.

### **d. Announcement of bilateral operations**

Bilateral operations are normally not announced publicly in advance. In addition, the ECB may decide not to announce the results of bilateral operations publicly.

### **e. Operating days**

The ECB may decide to conduct fine-tuning bilateral operations on any ESCB business day. Only national central banks of Member States where the trade day, the settlement day and the reimbursement day

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<sup>26</sup> The Governing Council of the ECB will decide whether, under exceptional circumstances, fine-tuning bilateral operations may also be executed by the ECB itself.

are NCB business days participate in such operations.

Outright bilateral operations for structural purposes are normally conducted and settled only on days which are NCB business days in all Member States.

## **5.3 Settlement procedures**

### **5.3.1 General considerations**

Money transactions relating to the use of ESCB standing facilities or to participation in open market operations are settled on the counterparties' accounts with the national central banks (or on the accounts of settlement banks participating in TARGET). Money transactions are settled only after (or at the moment of) the final transfer of the assets underlying the operation. This implies that underlying assets either need to have been pre-deposited/pre-delivered at the national central banks or to be settled on an intraday delivery-versus-payment basis with the said central banks. The transfer of underlying assets is executed either via the counterparties' safe custody accounts with national central banks or via their securities settlement accounts with securities settlement systems fulfilling the ECB's minimum standards (see Annex 7). Counterparties without a safe custody account with a national central bank or a securities settlement account with a securities settlement system fulfilling the ECB's minimum standards may settle the transactions of underlying assets through a securities settlement account with a custodian.

Further provisions related to the settlement procedures are defined in the contractual arrangements applied by the national central

banks (or the ECB) for the specific monetary policy instruments. The settlement procedures may differ slightly between national central banks owing to differences in national law and operational practices.

### **5.3.2 Settlement of open market operations**

Open market operations based on standard tenders (the main refinancing operations, the longer-term refinancing operations and structural operations) are normally settled on the first day following the trade day on which all relevant national RTGS and securities settlement systems are open. As a matter of principle, the ESCB aims to settle the transactions related to its open market operations at the same time in all Member States with all counterparties that have provided sufficient underlying assets. However, owing to operational constraints and the technical features of national securities settlement systems, the timing within the day of the settlement of open market operations may differ across the euro area at the start of Stage Three. The time of settlement of the main and the longer-term refinancing operations normally coincides with the time of reimbursement of a previous operation of corresponding maturity.

The ESCB aims to settle open market operations based on quick tenders and bilateral procedures on the trade day. However, the ESCB may for operational reasons occasionally apply other settlement dates for these operations, in particular for outright transactions (for fine-tuning as well as structural purposes) and foreign exchange swaps (see Table 3).

**Table 3**Normal settlement dates for ESCB open market operations <sup>a)</sup>

Monetary policy instrument	Settlement date for operations based on standard tenders	Settlement date for operations based on quick tenders or bilateral procedures
Reverse transactions	T+1 <sup>b)</sup>	T
Outright transactions	–	According to market convention for underlying assets
Issuance of debt certificates	T+1	–
Foreign exchange swaps	–	T, T+1 or T+2
Collection of fixed-term deposits	–	T

Notes to the table:

- a) In the table, T refers to the trade day. The settlement date connotation refers to ESCB business days.
- b) If the normal settlement date for the main or the longer-term refinancing operations coincides with a bank holiday, the ECB may decide to apply a different settlement date, including same-day settlement. The settlement dates for the main and the longer-term refinancing operations are specified in advance in the ESCB's tender operations calendar (see Section 5.1.2).

### 5.3.3 End-of-day procedures

The end-of-day procedures are specified in documentation related to the national RTGS systems and the TARGET system. According to these procedures, the normal closing time for the TARGET system (i.e. all national RTGS systems) is 6 p.m. ECB time (C.E.T.). No further payment orders are accepted for processing in the national RTGS systems after the closing time, although remaining payment orders accepted before the closing time are still processed. The national central banks start their end-of-day procedures at 6.30 p.m. ECB time (C.E.T.). Counterparties' requests for access to the marginal lending facility must be submitted to the respective national central bank before 6 p.m. ECB time (C.E.T.), while requests for access to the deposit facility are accepted until 6.30 p.m. ECB time (C.E.T.).

Any negative balances on the settlement accounts (in the national RTGS systems) of eligible counterparties remaining after the finalisation of the end-of-day control procedures are automatically considered to be a request for recourse to the marginal lending facility (see Section 4.1). The ESCB may, according to the contractual or regulatory arrangements applied by the respective national central bank, impose penalties on an institution which has negative balances on its settlement account at the end of the day if this institution does not fulfil the access conditions for the marginal lending facility.<sup>27</sup>

<sup>27</sup> Such a situation might occur, for example, if institutions outside the range of counterparties eligible for access to the marginal lending facility were to be granted access to intraday credit or if a counterparty's access to the marginal lending facility has been suspended or excluded (see Section 2.1) or if the assets underlying the intraday credit were not eligible for ESCB monetary policy operations (see footnote 39 on page 41).

# Chapter 6

## **Eligible assets**

## Eligible assets

### 6.1 General considerations

Article 18.1 of the ESCB/ECB Statute allows the ECB and the national central banks to transact in financial markets by buying and selling underlying assets outright or under repurchase agreements and requires all ESCB credit operations to be based on adequate collateral. Consequently, all ESCB liquidity-providing operations are based on underlying assets provided by the counterparties either in the form of the transfer of ownership of assets (in the case of outright transactions or repurchase agreements) or in the form of a pledge granted over relevant assets (in the case of collateralised loans).<sup>28</sup>

With the aim of protecting the ESCB from incurring losses in its monetary policy operations, ensuring the equal treatment of counterparties and enhancing operational efficiency, underlying assets have to fulfil certain criteria in order to be eligible for ESCB monetary policy operations.

It is recognised that the harmonisation of eligibility criteria throughout the euro area would contribute to ensuring equal treatment and operational efficiency. At the same time, due attention has to be paid to existing differences in financial structure across Member States. A distinction is therefore made, essentially for purposes internal to the ESCB, between two categories of assets eligible for ESCB monetary policy operations. These two categories are referred to as “tier one” and “tier two” respectively:

- tier one consists of marketable debt instruments fulfilling uniform euro area-wide eligibility criteria specified by the ECB;
- tier two consists of additional assets, marketable and non-marketable, which

are of particular importance for national financial markets and banking systems and for which eligibility criteria are established by the national central banks, subject to the minimum eligibility criteria established by the ECB. The specific eligibility criteria for tier two applied by the respective national central banks are subject to approval by the ECB.

No distinction is made between the two tiers with regard to the quality of the assets and their eligibility for the various types of ESCB monetary policy operations (except for the fact that tier two assets are not normally used by the ESCB in outright transactions). The assets eligible for ESCB monetary policy operations can also be used as underlying assets for intraday credit.<sup>29</sup>

Tier one and tier two assets are subject to the risk control measures specified in Section 6.4.

ESCB counterparties may use eligible assets on a cross-border basis, i.e. they may obtain funds from the national central bank of the Member State in which they are established by making use of assets located in another Member State (see Section 6.6).

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<sup>28</sup> *Liquidity-absorbing outright and reverse open market operations are also based on underlying assets. For underlying assets used in liquidity-absorbing reverse open market operations, the eligibility criteria are identical to those applied for underlying assets used in liquidity-providing reverse open market operations. However, neither initial margins nor valuation haircuts are applied in liquidity-absorbing operations.*

<sup>29</sup> *In addition, the ECB may allow the national central banks to consider as eligible for intraday credit certain types of assets which are not eligible as underlying assets for ESCB monetary policy operations (see footnote 39 on page 41).*

## 6.2 Tier one assets

The ECB establishes and maintains a list of tier one assets. This list is available to the public.

Debt certificates issued by the ECB are listed as tier one assets. Debt certificates issued by the national central banks prior to 1 January 1999 are also included in the tier one list.

The following eligibility criteria are applied to other tier one assets (see also Table 4):

- They must be debt instruments;<sup>30</sup>
- They must meet high credit standards. In the assessment of the credit standard of debt instruments, the ECB takes into account, inter alia, available ratings by market agencies as well as certain institutional criteria which would ensure particularly high protection of the holders;<sup>31</sup>
- They must be located in the euro area (so that realisation is subject to the law of a Member State of the euro area), transferable in book-entry form and deposited with a national central bank or with a central securities depository which fulfils the minimum standards established by the ECB (see Annex 7);
- They must be denominated in euro;<sup>32</sup>
- They must be issued (or guaranteed) by entities established in the EEA;<sup>33</sup>
- They must, at least, be listed or quoted on a regulated market as defined according to the Investment Services Directive,<sup>34</sup> or listed, quoted or traded on certain non-regulated markets as specified by the ECB.<sup>35</sup> Furthermore, market liquidity may be taken into account by the ECB when determining the eligibility of individual debt instruments.

Despite their inclusion in the tier one list, national central banks shall not accept as underlying assets debt instruments issued

or guaranteed by the counterparty, or by any other entity with which the counterparty has close links, as defined according to Article 1, fifth indent, of the First Banking Co-ordination Directive.<sup>36, 37</sup>

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<sup>30</sup> Debt instruments convertible into equity (or with similar characteristics) and debt instruments which afford rights subordinate to the claims of holders of other debt instruments of the issuer are excluded from tier one.

<sup>31</sup> Debt instruments issued by credit institutions which do not comply strictly with the criteria set out in Article 22(4) of the UCITS Directive (Directive 88/220/EEC amending Directive 85/611/EEC) are accepted in tier one only if each issue as such is awarded a rating (by a rating agency) which indicates, in the view of the ESCB, that the debt instrument meets high credit standards.

<sup>32</sup> Expressed as such or in the national denominations of the euro.

<sup>33</sup> The requirement that the issuing entity must be established in the EEA does not apply to international and supra-national institutions.

<sup>34</sup> Directive 93/22/EEC, Council Directive of 10 May 1993 on investment services in the securities field, OJ L 141 of 11 June 1993, page 27 ff.

<sup>35</sup> Debt instruments issued by credit institutions which do not comply strictly with the criteria set out in Article 22(4) of the UCITS Directive (Directive 88/220/EEC amending Directive 85/611/EEC) are accepted in tier one only if they are listed or quoted on a regulated market as defined according to the Investment Services Directive (Directive 93/22/EEC) and comply with the requirements of the Prospectus Directive (Directive 89/298/EEC).

<sup>36</sup> Directive 77/780/EEC OJ L 322 of 17 December 1977, as amended by Directive 95/26/EC, OJ L 168 of 29 June 1995. Article 2(1) of Directive 95/26/EC reads as follows:

"Close links shall mean a situation in which two or more natural or legal persons are linked by:

(a) participation, which shall mean the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking, or

(b) control, which shall mean the relationship between a parent undertaking and a subsidiary, in all the cases referred to in Article 1 (1) and (2) of Directive 83/349/EEC, or a similar relationship between any natural or legal person and an undertaking; any subsidiary undertaking of a subsidiary undertaking shall also be considered a subsidiary undertaking of the parent undertaking which is at the head of those undertakings. A situation in which two or more natural or legal persons are permanently linked to one and the same person by a control relationship shall also be regarded as constituting a close link between such persons."

Despite their inclusion in the tier one list, national central banks may decide not to accept as underlying assets the following instruments:

- Debt instruments falling due for repayment before the maturity date of the monetary policy operation for which they are being used as underlying assets;<sup>38</sup>
- Debt instruments with an income flow (e.g. a coupon payment) occurring in the period until the maturity date of the monetary policy operation for which they are being used as underlying assets.

All tier one assets may be used in a cross-border context, implying that a counterparty can receive credit from the national central bank of the Member State in which the counterparty is established by making use of tier one instruments located in another Member State (see Section 6.6).

Tier one assets are eligible for all monetary policy operations which are based on underlying assets, i.e. reverse and outright open market transactions and the marginal lending facility.

### 6.3 Tier two assets<sup>39</sup>

In addition to debt instruments fulfilling the eligibility criteria for tier one, national central banks may consider as eligible other assets, tier two assets, which are of particular importance for their national financial markets and banking systems. Eligibility criteria for tier two assets are established by the national central banks in accordance with the minimum eligibility criteria stated below. The specific national eligibility criteria for tier two assets are subject to approval by the ECB. The national central banks establish and maintain national lists of eligible tier two assets. These lists are available to the public.<sup>40</sup>

Tier two assets have to fulfil the following minimum eligibility criteria (see also Table 4):

- They must be either debt instruments (marketable or non-marketable) or equities (traded on a regulated market as defined according to the Investment Services Directive<sup>41</sup>). Equities issued by credit institutions and debt instruments issued by credit institutions which do not comply strictly with the criteria set out in Article 22(4) of the UCITS

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<sup>37</sup> This provision does not apply to the close links between the counterparty and the public authorities of EEA countries. Also exempt from the definition of close links are cases in which such debt instruments are protected by specific legal safeguards, e.g. instruments which comply strictly with the criteria set out in Article 22(4) of the UCITS Directive (Directive 88/220/EEC amending Directive 85/611/EEC).

<sup>38</sup> If the national central banks were to allow the use of instruments with a maturity shorter than the monetary policy operations for which they serve as underlying assets, counterparties would be required to replace such assets at, or prior to, maturity.

<sup>39</sup> In addition to the tier two assets eligible for ESCB monetary policy operations, the ECB may authorise national central banks to grant intraday credit against debt instruments which are considered eligible for intraday credit by non-participating EU central banks and which are: 1) located in EEA countries outside the euro area; 2) issued by entities established in EEA countries outside the euro area; or 3) denominated in currencies (EEA currencies or other widely traded currencies) other than the euro. The ECB's authorisation will be subject to the preservation of operational efficiency and the exercise of appropriate control over the specific legal risks relating to such debt instruments. Within the euro area, these debt instruments may not be used on a cross-border basis (i.e. counterparties may use these debt instruments only for receiving funds directly from the national central bank which has been authorised by the ECB to grant intraday credit against these assets).

<sup>40</sup> For non-marketable tier two assets, national central banks may decide not to disclose information on individual issues, issuers/debtors or guarantors in the publication of their national tier two lists.

<sup>41</sup> Directive 93/22/EEC, Council Directive of 10 May 1993 on investment services in the securities field, OJ L 141 of 11 June 1993, page 27 ff.

Directive are normally not eligible for inclusion in the tier two lists. However, the ECB may authorise national central banks to include such assets in their tier two lists subject to certain conditions and restrictions.

- They must be debt obligations against or equities of (or be guaranteed by) entities which are deemed to be financially sound by the national central bank which has included the assets in its tier two list;
- They must be easily accessible to the national central bank which has included the assets in its tier two list;
- They must be located in the euro area (so that realisation is subject to the law of a Member State of the euro area);
- They must be denominated in euro;<sup>42</sup>
- They must be issued (or guaranteed) by entities established in the euro area.

Despite their inclusion in the tier two lists, national central banks shall not accept as underlying assets debt obligations against or equities of the counterparty, or any other entity with which the counterparty has close links, as defined according to Article 1, fifth indent, of the First Banking Co-ordination Directive.<sup>43, 44</sup>

Despite their inclusion in the tier two lists, national central banks may decide not to accept as underlying assets the following assets:

- Debt instruments falling due for repayment before the maturity date of the monetary policy operation for which they are used as underlying assets;<sup>45</sup>
- Debt instruments with an income flow (e.g. a coupon payment) occurring in the period until the maturity date of the monetary policy operation for which

they are being used as underlying assets;

- Equities with a payment of any kind (including in specie) or with any other right attached to them which may affect their suitability to be used as underlying assets for the period until the maturity date of the monetary policy operation for which they are being used as underlying assets.

Tier two assets eligible for ESCB monetary policy operations may be used in a cross-border context, implying that a counterparty can receive funds from the national central bank of the Member State in which the counterparty is established by making use of assets located in another Member State (see Section 6.6).

Tier two assets are eligible for reverse open market transactions and the marginal lending facility. Tier two assets are not normally used in ESCB outright transactions.

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<sup>42</sup> Expressed as such or in the national denominations of the euro.

<sup>43</sup> See footnote 36 on page 40.

<sup>44</sup> This provision does not apply to close links between the counterparty and the public authorities of EEA countries. Furthermore, trade bills, for which at least one entity (other than a credit institution) is liable in addition to the counterparty, are not considered to be debt obligations against the counterparty. Also exempt from the definition of close links are cases in which such debt instruments are protected by specific legal safeguards, e.g. instruments which comply strictly with the criteria set out in Article 22(4) of the UCITS Directive (Directive 88/220/EEC amending Directive 85/611/EEC).

<sup>45</sup> If the national central banks were to allow the use of instruments with a maturity shorter than the monetary policy operations for which they serve as underlying assets, counterparties would be required to replace such assets at, or prior to, maturity.

**Table 4**

## Eligible assets for ESCB monetary policy operations

Criteria	Tier one	Tier two
<b>Type of asset</b>	<ul style="list-style-type: none"> <li>• ECB debt certificates;</li> <li>• Other marketable debt instruments (excluding "hybrid" instruments).</li> </ul>	<ul style="list-style-type: none"> <li>• Marketable debt instruments;</li> <li>• Non-marketable debt instruments;</li> <li>• Equities traded on a regulated market.</li> </ul>
<b>Settlement procedures</b>	<ul style="list-style-type: none"> <li>• Instruments must be centrally deposited in book-entry form with national central banks or a CSD fulfilling the ECB's minimum standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Assets must be easily accessible to the national central bank which has included them in its tier two list.</li> </ul>
<b>Type of issuer</b>	<ul style="list-style-type: none"> <li>• ESCB;</li> <li>• Public sector;</li> <li>• Private sector;<sup>a)</sup></li> <li>• International and supra-national institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Public sector;</li> <li>• Private sector.<sup>b)</sup></li> </ul>
<b>Credit standard</b>	<ul style="list-style-type: none"> <li>• The issuer (guarantor) must be deemed financially sound by the ECB.</li> </ul>	<ul style="list-style-type: none"> <li>• The issuer/debtor (guarantor) must be deemed financially sound by the national central bank which has included the asset in its tier two list.</li> </ul>
<b>Place of establishment of the issuer (or guarantor)</b>	<ul style="list-style-type: none"> <li>• EEA.<sup>c)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Euro area.</li> </ul>
<b>Location of asset</b>	<ul style="list-style-type: none"> <li>• Euro area.</li> </ul>	<ul style="list-style-type: none"> <li>• Euro area.</li> </ul>
<b>Currency</b>	<ul style="list-style-type: none"> <li>• Euro.<sup>d)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Euro.<sup>d)</sup></li> </ul>
<i>Memo item:</i> <b>Cross-border use</b>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>

Notes to the table:

- a) Debt instruments issued by credit institutions which do not comply strictly with the criteria set out in Article 22(4) of the UCITS Directive (Directive 88/220/EEC amending Directive 85/611/EEC) are accepted in tier one only under the following three conditions: First, each issue as such needs to be awarded a rating (by a rating agency) which indicates, in the view of the ESCB, that the debt instrument meets high credit standards. Second, the debt instruments need to be listed or quoted on a regulated market as defined according to the Investment Services Directive (Directive 93/22/EEC). Third, the debt instruments need to comply with the requirements of the Prospectus Directive (Directive 89/298/EEC).
- b) Equities issued by credit institutions and debt instruments issued by credit institutions which do not comply strictly with the criteria set out in Article 22(4) of the UCITS Directive are normally not eligible for inclusion in tier two lists. However, the ECB may authorise national central banks to include such assets in their tier two lists subject to certain conditions and restrictions.
- c) The requirement that the issuing entity must be established in the EEA does not apply to international and supra-national institutions.
- d) Expressed as such or in the national denominations of the euro.

## 6.4 Risk control measures

Risk control measures are applied to the assets underlying ESCB monetary policy operations in order to protect the ESCB

against the risk of financial loss if underlying assets have to be realised owing to the default of a counterparty. The risk control measures at the disposal of the ESCB are described in Box 7.

### Box 7

#### Risk control measures

- **Initial margins**  
*The ESCB applies initial margins in its liquidity-providing reverse transactions. This implies that counterparties need to provide underlying assets with a value at least equal to the liquidity provided by the ESCB plus the value of the initial margin.*
- **Valuation haircuts**  
*The ESCB 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).*
- **Variation margins (marking to market)**  
*The ESCB requires a specified margin to be maintained over time on the underlying assets used in its liquidity-providing reverse transactions. This implies that if the value, measured on a regular basis, of the underlying assets falls below a certain level, the national central bank will require the counterparty to supply additional assets or cash (i.e. a margin call). Similarly, if the value of the underlying assets, following their revaluation, exceeds a certain level, the central bank returns excess assets or cash to the counterparty. (The calculations relevant for the execution of margin calls are presented in Box 9 on page 47.)*
- **Limits in relation to issuers/debtors or guarantors**  
*The ESCB may apply limits to the exposure vis-à-vis issuers/debtors or guarantors.*
- **Additional guarantees**  
*The ESCB may require additional guarantees by financially sound entities in order to accept certain assets.*
- **Exclusion**  
*The ESCB may exclude certain assets from use in its monetary policy operations.*

### 6.4.1 Initial margins

The ESCB applies initial margins, which correspond to a certain percentage of the amount of liquidity provided which is to be added to the requirement for the value of the underlying assets. Two different initial margins are applied, taking into account the exposure time for the ESCB:

- a margin of 1% for intraday and overnight transactions; and

- a margin of 2% for transactions with an original maturity of more than one business day.

No initial margins are applied in liquidity-absorbing operations.

### 6.4.2 Risk control measures for tier one assets

In addition to the initial margins applied to the amount of liquidity provided, the ESCB applies specific risk control measures

according to the types of underlying assets offered by the counterparty. The appropriate risk control measures for tier one assets are determined by the ECB, taking into consideration differences in the legal systems of the Member States. Risk control measures for tier one assets are broadly harmonised across the euro area.<sup>46</sup> The risk control framework for tier one assets includes the following main elements:

- Individual debt instruments are subject to specific “valuation haircuts”. The haircuts are applied by deducting a certain percentage from the market value of the underlying asset. The haircuts are differentiated according to the residual maturity and coupon structure of the debt instruments as described in Box 8;
- No valuation haircuts are applied in liquidity-absorbing operations;
- Depending on both the jurisdiction and national operational systems, national central banks allow for the pooling of underlying assets and/or require the earmarking of the assets used in each individual transaction. In pooling systems, the counterparty makes a pool of sufficient underlying assets available to the central bank to cover the related credits received from the central bank, thus implying that individual assets are not linked to specific credit operations. In contrast, in an earmarking system, each credit operation is linked to specific identifiable assets;
- In pooling systems, the assets included in the pool are subject to daily valuation;
- In earmarking systems, the valuation of underlying assets is carried out at least on a weekly basis. In this case, the settlement date of the main refinancing operations (normally each Wednesday) is a valuation date. In addition, the settlement dates of the longer-term

refinancing operations are valuation dates;

- On valuation dates, national central banks calculate the required value of underlying assets taking into account changes to outstanding credit volumes, the valuation principles outlined in Section 6.5 and the required initial margins and valuation haircuts;
- If, after valuation, the underlying assets do not match the requirements as calculated on that day, symmetric margin calls are performed. In order to reduce the frequency of margin calls, national central banks may apply a trigger point. If applied, this trigger point is 1% of the amount of liquidity provided. Depending on the jurisdiction, national central banks may require margin calls either to be effected through the supply of additional assets or by means of cash payments. This implies that if the market value of the underlying assets falls below the lower trigger point, counterparties have to supply additional assets (or cash). Similarly, if the market value of the underlying assets, following their revaluation, were to exceed the upper trigger point, the national central bank would return excess assets (or cash) to the counterparty (see Box 9);
- In pooling systems, by definition, counterparties may substitute underlying assets on a daily basis;

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<sup>46</sup> Owing to operational differences across Member States in respect of the procedures for counterparties' delivery of underlying assets to the national central banks (in the form of a pool of collateral pledged with the national central bank 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 margin framework.

- In earmarking systems, the substitution of underlying assets may be permitted by national central banks;
- The ECB may at any time decide to *exclude* individual debt instruments from the list of eligible tier one instruments.

### **Box 8**

#### Levels of valuation haircuts applied to eligible tier one assets

##### ***Valuation haircuts applied to fixed rate instruments:***

*0% for instruments with a residual maturity of up to 1 year;*

*1.5% for instruments with a residual maturity of more than 1 year and up to 3 years;*

*2% for instruments with a residual maturity of more than 3 years and up to 7 years;*

*3% for coupon bonds with a residual maturity of more than 7 years;*

*5% for zero coupon bonds and strips with a residual maturity of more than 7 years.*

##### ***Valuation haircuts applied to floating rate instruments:***

*0% for instruments with post-fixed coupons.*

*For instruments with pre-fixed coupons, the same valuation haircuts are applied as those for fixed rate instruments. However, for such instruments, the valuation haircuts are determined according to the period of time between the last coupon setting and the next coupon resetting.*

**Box 9****Calculation of initial margins and valuation haircuts**

The total amount of eligible assets  $J$  (for  $j = 1$  to  $J$ ; value  $C_{j,t}$  at time  $t$ ) a counterparty must provide for a set of liquidity-providing operations  $I$  (for  $i = 1$  to  $I$ ; amount  $L_{i,t}$  at time  $t$ ) is determined by the following formula:

$$\sum_{i=1}^I (1 + m_i) L_{i,t} \leq \sum_{j=1}^J (1 - h_j) C_{j,t} \quad (1)$$

Where:

$m_i$  : initial margin applied to operation  $i$  :

$m_i = 1\%$  for intraday and overnight operations and  $m_i = 2\%$  for operations with a maturity exceeding one business day;

$h_j$  : valuation haircut applied to eligible asset  $j$ .

Let  $\tau$  be the time period between revaluations. The margin call base at time  $t + \tau$  equals:

$$M_{t+\tau} = \sum_{i=1}^I (1 + m_i) L_{i,t+\tau} - \sum_{j=1}^J (1 - h_j) C_{j,t+\tau} \quad (2)$$

Depending on the operational features of the national central banks' collateral management systems, national central banks may also take into account interest accrued on liquidity provided in outstanding operations in the calculation of the margin call base.

Margin calls are effected only if the margin call base exceeds a certain trigger point level.

Let  $k = 1\%$  denote the trigger. In an earmarking system ( $I = 1$ ), a margin call is effected when

$M_{t+\tau} > k \cdot L_{i,t+\tau}$  (the counterparty pays the margin call to the national central bank); or  
 $M_{t+\tau} < -k \cdot L_{i,t+\tau}$  (the national central bank pays the margin call to the counterparty).

In a pooling system, the counterparty has to bring more assets into the pool if:

$$M_{t+\tau} > k \cdot \sum_{i=1}^I L_{i,t+\tau}$$

Conversely, the amount of intraday credit (*IDC*) available to the counterparty in a pooling system can be expressed as follows:

$$IDC = \frac{-M_{t+\tau} + k \cdot \sum_{i=1}^I L_{i,t+\tau}}{1.01} \quad (\text{if positive})$$

In both earmarking and pooling systems, margin calls shall ensure that the relation expressed in (1) above is re-established.

**6.4.3 Risk control measures for tier two assets**

The appropriate risk control measures for tier two assets are compiled by the national central bank which has included the asset in its tier two list. The application of risk

control measures by national central banks is subject to ECB approval. The ESCB aims at ensuring non-discriminatory conditions for tier two assets across the euro area when establishing the appropriate risk control measures. Within this framework,

the *valuation haircuts* applied to tier two assets reflect the specific risks associated with these assets and are at least as stringent as the valuation haircuts applied to tier one assets. In this respect, a particularly cautious approach is applied to solvency risk and equity price risk. The national central banks apply the same trigger point (if any) for the execution of margin calls for tier two assets as that for tier one assets. In addition, national central banks may apply *limits* to their acceptance of tier two assets, they may require *additional guarantees* and they may at any time decide to *exclude* individual assets from their tier two lists.

## 6.5 Valuation principles for underlying assets

When determining the value of underlying assets used in reverse transactions, the ESCB applies the following principles:

- For each marketable asset eligible in tier one or tier two, the ESCB specifies a single reference market to be used as a price source. This also implies that for assets listed, quoted or traded on more than one market, only one of these markets is used as a price source for the relevant asset;
- For each reference market, the ESCB defines the most representative price to be used for the calculation of market values. If more than one price is quoted, the lowest of these prices (normally the bid price) is used;
- The value of marketable assets is calculated on the basis of the most representative price on the business day preceding the valuation date;
- In the absence of a representative price for a particular asset on the business day preceding the valuation date, the last trading price is used. If no trading price is available, the national central bank will

define a price, taking into account the last price identified for the asset in the reference market;

- The market value of a debt instrument is calculated including accrued interest;
- Depending on differences in national legal systems and operational practices, the treatment of income flows (e.g. coupon payments) related to an asset which are received during the life of a reverse transaction may differ between national central banks. If the income flow is transferred to the counterparty, national central banks ensure that the relevant operations will still be fully covered by a sufficient amount of underlying assets before the transfer of the income takes place. The national central banks aim at ensuring that the economic effect of the treatment of income flows is equivalent to a situation in which the income is transferred to the counterparty on the payment day;<sup>47</sup>
- For non-marketable tier two assets, the national central bank which has included the assets in its tier two list specifies separate valuation principles.

## 6.6 Cross-border use of eligible assets

ESCB counterparties may use eligible assets on a cross-border basis, i.e. they may obtain funds from the national central bank of the Member State in which they are established by making use of assets located

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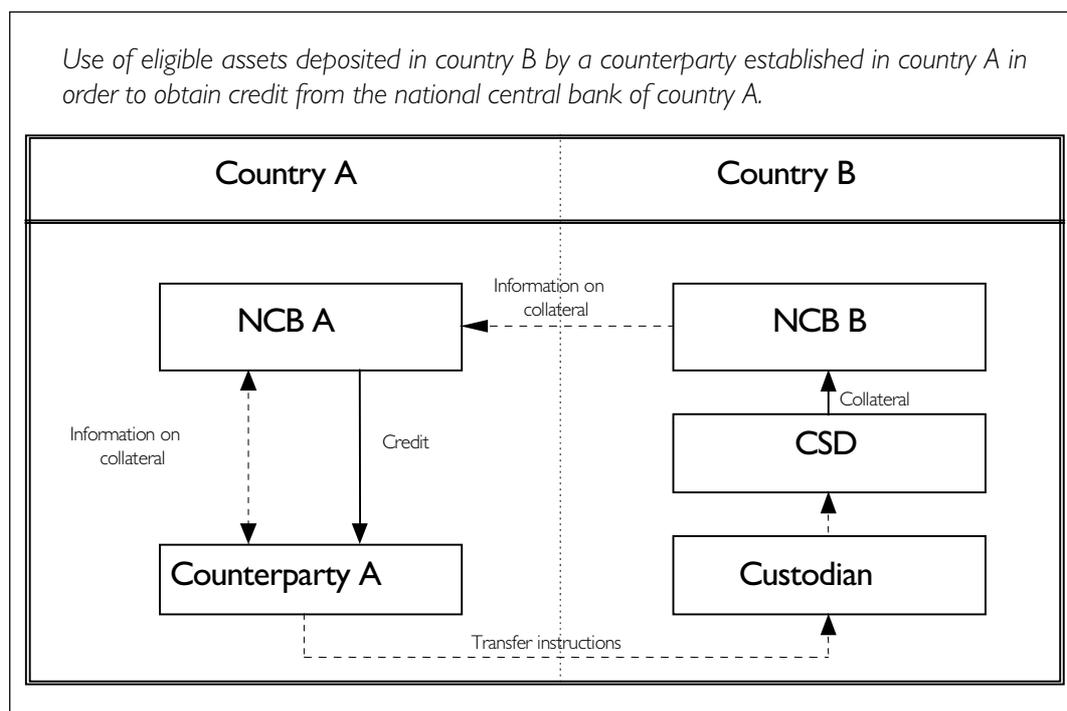
<sup>47</sup> National central banks may decide not to accept as underlying assets in reverse transactions debt instruments with an income flow (e.g. a coupon payment) or equities with a payment of any kind (or with any other right attached to them which may affect their suitability as underlying assets) occurring in the period until the maturity date of the monetary policy operation (see Sections 6.2 and 6.3).

in another Member State. Underlying assets may be used on a cross-border basis in the settlement of all types of operations in which the ESCB provides liquidity against eligible assets. A mechanism is being developed by national central banks to ensure that all eligible assets may be used on a cross-border basis. This is the correspondent central banking model (CCBM), under which central banks act as custodians (“correspondents”) for each other in respect of securities accepted in their local depository or settlement system.

The model may be used for all tier one assets and for tier two assets that are marketable securities. Specific solutions may be used for certain types of non-marketable tier two assets. (Details of these solutions will be provided in separate documentation.) The CCBM as well as the specific solutions for non-marketable tier two assets may be used in the provision of overnight and intraday liquidity, in reverse transactions (taking the form of repurchase agreements or pledges) and in outright transactions.<sup>48</sup> The CCBM is illustrated in Chart 3 below.

**Chart 3**

The correspondent central banking model



All national central banks maintain securities accounts with each other for the purpose of the cross-border use of eligible assets. The precise procedure of the CCBM depends on whether the eligible assets are earmarked for each individual transaction or whether they are held in a pool of underlying assets (see Section 6.4.1):

- In an earmarking system, as soon as its bid for credit is accepted by the national central bank of the Member State in which the counterparty is established

<sup>48</sup> The ECB may authorise national central banks to grant intraday credit against certain types of “foreign” debt instruments (see footnote 39 on page 41). However, within the euro area, such debt instruments may not be used on a cross-border basis.

(i.e. the “home central bank”), the counterparty instructs (via its own custodian, if necessary) the securities settlement system in the country in which its securities are held to transfer them to the central bank of that country for the account of the home central bank. Once the home central bank has been informed by the correspondent central bank that the collateral has been received, it transfers the funds to the counterparty. Central banks do not advance funds until they are certain that the counterparties’ securities have been received by the correspondent central bank. Where necessary to meet settlement deadlines, counterparties may be able to pre-deposit assets with correspondent central banks for the account of their home central bank using the CCBM procedures;

- In a pooling system, the counterparty is at any time able to provide the correspondent central bank with securities for the account of the home central bank. Once the home central bank has been informed by the correspondent central bank that the securities have been received, it will add these securities to the pool account of the counterparty.

At the start of Stage Three the CCBM is available to counterparties between 9 a.m. and 4.30 p.m. ECB time (C.E.T.) each ESCB

business day. This implies that 4.30 p.m. ECB time (C.E.T.) is the latest time at which the home central bank can send the information required for the cross-border use of eligible assets to the correspondent central bank. Taking due account of the need to ensure the equal treatment of counterparties throughout the euro area, national central banks may impose an earlier cut-off time of 4 p.m. ECB time (C.E.T.) for counterparties to approach their home central bank for the purpose of settling ESCB credit operations with new collateral to be delivered via the CCBM. It is clear that when the counterparties foresee a need to use the CCBM late in the day, they should, where possible, deliver the assets in advance (i.e. pre-deposit). Assets which are delivered (or pledged) before the early cut-off time of 4 p.m. ECB time (C.E.T.) (if any) can be used for cross-border transactions until the closure of the CCBM at 4.30 p.m. ECB time (C.E.T.). In exceptional circumstances or when required for monetary policy purposes, the ECB may decide to extend the closing time of the CCBM until the closing time of TARGET (as a rule 6 p.m. ECB time (C.E.T.)). Further information on these procedures is available from the national central bank in the Member State in which the counterparty is established. The procedures followed by the national central banks in the cross-border use of assets may differ slightly between Member States.

# Chapter 7

## **Minimum reserves**

## Minimum reserves

### 7.1 General considerations

The ECB requires credit institutions to hold minimum reserves on accounts with the national central banks within the framework of the ESCB's minimum reserve system. The legal framework for the ESCB's minimum reserve system is laid down in Article 19 of the ESCB/ECB Statute, the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank and the ECB Regulation on minimum reserves. The application of the ECB Regulation on minimum reserves ensures that the terms and conditions of the ESCB's minimum reserve system are uniform throughout the euro area.

The amount of minimum reserves to be held by each institution is determined in relation to its reserve base. The ESCB's minimum reserve system enables counterparties to make use of averaging provisions, implying that compliance with reserve requirements is determined on the basis of the average of the end-of-calendar-day balances on the counterparties' reserve accounts over a one-month maintenance period. Institutions' holdings of required reserves are remunerated at the rate of the ESCB's main refinancing operations.

The ESCB's minimum reserve system primarily pursues the following monetary functions:

- *Stabilisation of money market interest rates*

The averaging provision of the ESCB's minimum reserve system aims to contribute to the stabilisation of money market interest rates by giving institutions an incentive to smooth the effects of temporary liquidity fluctuations.

- *Creation or enlargement of a structural liquidity shortage*

The ESCB's minimum reserve system contributes to creating or enlarging a structural liquidity shortage. This may be helpful in order to improve the ability of the ESCB to operate efficiently as a supplier of liquidity.

In the application of minimum reserves, the ECB is bound to act in pursuance of the objectives of the ESCB as set out in Article 105 (1) of the Treaty and Article 2 of the ESCB/ECB Statute, which implies, inter alia, the principle of not inducing significant undesirable delocation or disintermediation.

### 7.2 Institutions subject to minimum reserves

Pursuant to Article 19.1 of the ESCB/ECB Statute, the ECB requires credit institutions established in Member States to hold minimum reserves. This implies that branches in the euro area of entities with no registered office in the euro area are also subject to the ESCB's minimum reserve system. However, branches located outside the euro area of credit institutions established in the euro area are not subject to the ESCB's minimum reserve system.

The ECB may exempt institutions under winding-up or reorganisation from their obligations under the ESCB's minimum reserve system. According to the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank and the ECB Regulation on minimum reserves, the ECB may also exempt classes of other institutions from their obligations under the ESCB's minimum reserve system on a non-discriminatory basis if the purposes of the ESCB's minimum reserve system would not be met by

imposing them on those particular institutions. In its decision on any such exemption, the ECB takes into account one or more of the following criteria:

- the institution is pursuing special purpose functions;
- the institution is not exercising active banking functions in competition with other credit institutions;
- the institution has all its deposits earmarked for purposes related to regional and/or international development assistance.

The ECB establishes and maintains a list of institutions subject to the ESCB's minimum reserve system. The list is available to the public. The ECB will also make public a list of any institutions exempt from their obligations under the ESCB's minimum reserve system for reasons other than their being subject to reorganisation measures. Counterparties may rely on these lists in deciding whether their liabilities are owed to another institution that is itself subject to reserve requirements. The lists available to the public on the last ESCB business day of each calendar month are valid for the calculation of the reserve base for the subsequent maintenance period.

### **7.3 Determination of minimum reserves**

#### **a. Reserve base and reserve ratios**

The reserve base of an institution is defined in relation to elements of its balance sheet. The balance sheet data are reported to the national central banks within the general framework of the ECB's money and banking statistics (see Section 7.5).<sup>49</sup> For institutions subject to full reporting requirements, the balance sheet data referring to the end of a given calendar month are used to determine the reserve base for the maintenance period

starting during the following calendar month.

The reporting framework for the ECB's money and banking statistics includes the possibility to relieve small institutions from some of the reporting burden. Institutions to which this provision applies only need to report a limited set of balance sheet data on a quarterly basis (as end-of-quarter data) and with a reporting deadline which is longer than that set for larger institutions. For these institutions, the balance sheet data reported for a specific quarter are used to determine, with a lag of one month, the reserve base for the consecutive three one-month reserve maintenance periods.

According to the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank, the ECB is entitled to include liabilities resulting from the acceptance of funds together with liabilities resulting from off-balance-sheet items in the reserve base of institutions. In the ESCB's minimum reserve system, only the liability categories "deposits", "debt securities issued" and "money market paper" are actually included in the reserve base (see Box 10).

Liabilities vis-à-vis other institutions included in the list of institutions subject to the ESCB's minimum reserve system and liabilities vis-à-vis the ECB and the national central banks are not included in the reserve base. In this respect, for the liability categories "debt securities issued" and "money market paper", the issuer needs to be able to prove the actual amount of these instruments held by other institutions subject to the ESCB's minimum reserve system in order to be entitled to deduct them from the reserve base. If such proof cannot be presented, issuers may apply

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<sup>49</sup> The reporting framework for the ECB's money and banking statistics is presented in Annex 4.

standardised deductions of a fixed percentage (to be specified by the ECB) to each of these balance sheet items.

The reserve ratios are determined by the ECB subject to the maximum limit specified in the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank. The ECB applies a uniform non-zero reserve ratio to most of the items included in the reserve base. This reserve ratio is specified in the ECB

Regulation on minimum reserves. The ECB sets a zero reserve ratio on the following liability categories: “deposits with agreed maturity over 2 years”, “deposits redeemable at notice over 2 years”, “repos” and “debt securities with an agreed maturity over 2 years” (see Box 10). The ECB may at any time change the reserve ratios. Changes in reserve ratios are announced by the ECB in advance of the first maintenance period for which the change is effective.

### Box 10

#### Reserve base and reserve ratios

##### **A. Liabilities included in the reserve base and to which the positive reserve ratio is applied**

###### Deposits

- Overnight deposits
- Deposits with agreed maturity up to 2 years
- Deposits redeemable at notice up to 2 years

###### Debt securities issued

- Debt securities with agreed maturity up to 2 years

###### Money market paper

- Money market paper

##### **B. Liabilities included in the reserve base and to which a zero reserve ratio is applied**

###### Deposits

- Deposits with agreed maturity over 2 years
- Deposits redeemable at notice over 2 years
- Repos

###### Debt securities issued

- Debt securities with agreed maturity over 2 years

##### **C. Liabilities excluded from the reserve base**

- Liabilities vis-à-vis other institutions subject to the ESCB's minimum reserve system
- Liabilities vis-à-vis the ECB and the national central banks

#### *b. Calculation of reserve requirements*

The reserve requirement of each individual institution is calculated by applying, to the amount of eligible liabilities, the reserve ratios for the corresponding categories of liabilities.

Each institution may deduct a uniform lump-sum allowance from its reserve requirement in each Member State in which it has an establishment. The size of the lump-sum allowance is specified in the ECB Regulation on minimum reserves. The granting of such an allowance shall be

without prejudice to the legal obligations of institutions subject to the ESCB's minimum reserve system.<sup>50</sup>

The reserve requirement for each maintenance period is rounded to the nearest euro.

## **7.4 Maintenance of reserve holdings**

### **a. Maintenance period**

The maintenance period is one month, starting on the 24th calendar day of each month and ending on the 23rd calendar day of the following month.

### **b. Reserve holdings**

Each institution must hold its minimum reserves on one or more reserve accounts with the national central bank in the Member State in which it is established. For institutions with more than one establishment in a Member State, the head office is responsible for fulfilling the aggregate minimum reserves of all the domestic establishments of the institution.<sup>51</sup> An institution with establishments in more than one Member State is required to hold minimum reserves with the national central bank of each Member State in which it has an establishment, in relation to its reserve base in the corresponding Member State.

Institutions' settlement accounts with the national central banks may be used as reserve accounts. Reserve holdings held on settlement accounts may be used for intraday settlement purposes. The daily reserve holding of an institution is calculated as the end-of-day balance on its reserve account.

An institution may apply to the national central bank in the Member State in which the institution is resident for permission to

hold all its minimum reserves indirectly through an intermediary. The possibility of holding minimum reserves through an intermediary is as a rule restricted to institutions which are constituted so that part of the administration (e.g. treasury management) is normally effected by the intermediary (e.g. networks of savings banks and co-operative banks may centralise their reserve holdings). The holding of minimum reserves through an intermediary is subject to the provisions specified in the ECB Regulation on minimum reserves.

### **c. Remuneration of reserve holdings**

Holdings of required reserves are remunerated at the average, over the maintenance period, of the ESCB's rate (weighted according to the number of calendar days) on the main refinancing operations, according to the formula specified in Box 11. Reserve holdings exceeding the required reserves are not remunerated. The remuneration is paid on the second NCB business day following the end of the maintenance period over which the remuneration was earned.

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<sup>50</sup> For institutions allowed to report statistical data as a group on a consolidated basis according to the provisions of the reporting framework for the ECB's money and banking statistics (see Annex 4), only one such allowance will be granted to the group as a whole, unless the institutions provide data on the reserve base and reserve holdings in a sufficiently detailed manner to enable the ESCB to verify their accuracy and quality and to determine the respective reserve requirement of each individual institution included in the group.

<sup>51</sup> If an institution has no head office in a Member State in which it is established, it has to designate a principal branch which would then be responsible for fulfilling the aggregate minimum reserves of all the establishments of the institution in the relevant Member State.

**Box 11****Calculation of the remuneration of holdings of required reserves**

The holding of required reserves is remunerated according to the following formula:

$$R_t = \frac{H_t \cdot n_t \cdot \sum_{i=1}^n \frac{MR_i}{n_t \cdot 100}}{360}$$

Where:

$R_t$	=	remuneration to be paid on holdings of required reserves for the maintenance period $t$
$H_t$	=	holdings of required reserves for the maintenance period $t$
$n_t$	=	number of calendar days in the maintenance period $t$
$i$	=	$i$ th calendar day of the maintenance period $t$
$MR_i$	=	marginal interest rate of the most recent main refinancing operation spanning calendar day $i$

### 7.5 Reporting and verification of the reserve base

The reserve base items for the application of minimum reserves are calculated by the institutions subject to minimum reserves themselves and are reported to the national central banks within the general framework of the ECB's money and banking statistics (see Annex 4).

For institutions that are allowed to act as intermediaries for indirect reserve holdings of other institutions, special reporting requirements are specified in the ECB Regulation on minimum reserves. The holding of reserves through an intermediary does not change the statistical reporting obligations of institutions holding reserves via an intermediary.

The ECB and the national central banks have the right, within the scope of the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank, to verify the accuracy and quality of collected data.

### 7.6 Non-compliance with minimum reserve obligations

Non-compliance with the minimum reserve obligations arises if an institution's average end-of-calendar-day balance on its reserve account(s) over the maintenance period is less than its reserve requirement for the corresponding maintenance period.

Where an institution fails to comply with all or part of the reserve requirement, the ECB may, in accordance with the Council Regulation (EC) concerning the application of minimum reserves by the European Central Bank, impose any one of the following sanctions:

- a payment of up to 5 percentage points above the marginal lending rate, applied to the amount of the reserve requirement which the relevant institution failed to provide; or
- a payment of up to two times the marginal lending rate, applied to the amount of the reserve requirement which the relevant institution failed to provide; or

- the requirement for the relevant institution to establish non-interest-bearing deposits with the ECB or the national central banks up to three times the amount of the reserve requirement which the relevant institution failed to provide. The maturity of the deposit may not exceed the period during which the institution failed to comply with the reserve requirement.

Where an institution fails to comply with other obligations under ECB Regulations and Decisions related to the ESCB's minimum reserve system (e.g. if relevant data are not transmitted in time or are not accurate), the ECB is empowered to impose sanctions in accordance with the Council

Regulation (EC) concerning the powers of the European Central Bank to impose sanctions.

In addition, the ESCB may, in accordance with provisions in the contractual and regulatory arrangements applied by national central banks, suspend counterparties' access to the ESCB's standing facilities and open market operations in the event of non-compliance with obligations under the ESCB's minimum reserve system. The ESCB may also require institutions which do not comply with these obligations to fulfil their reserve requirements each day, thus suspending the option of making use of the averaging provision.

# Chapter 8

## **Transitional provisions**

## Transitional provisions

In order to ensure that the transition from the national monetary policies in Stage Two to the single monetary policy in Stage Three is effected smoothly, it is important to apply a harmonised approach to the termination of the national monetary policy operations at the end of Stage Two and the changeover to the ESCB's monetary policy framework at the start of Stage Three. In this respect, several areas have been identified where specific provisions need to be applied for the transition.

### 8.1 Open market operations and standing facilities

#### a. General provisions

Whereas existing legal rights and relationships entered into by the national central banks in Stage Two will not be overridden, national central banks will seek to smooth the transition to Stage Three by ensuring, in particular, that any remaining monetary policy operations initiated in Stage Two are phased out early in Stage Three.

#### b. Open market operations

The operations calendar for the main and the longer-term refinancing operations to be conducted by the ESCB in the calendar year 1999 is contained in Annex 5 (see also Section 5.1.2). In accordance with this calendar, the following provisions are specified for the ESCB's first open market operations:

- The first main refinancing operation in Stage Three is announced on 4 January

1999, the tender allotment takes place on 5 January 1999 and the related transactions are settled on 7 January 1999. The operation has a maturity of 13 days (reimbursement takes place on 20 January 1999);

- The first longer-term refinancing operation in Stage Three is announced on 12 January 1999, the tender allotment takes place on 13 January 1999 and the related transactions are settled on 14 January 1999. This first longer-term refinancing operation consists of separate tenders for transactions with three different maturities; approximately one-third of the volume has a maturity of 42 days (reimbursement takes place on 25 February 1999), one-third of the volume has a maturity of 70 days (reimbursement takes place on 25 March 1999) and one-third of the volume has maturity of 105 days (reimbursement takes place on 29 April 1999);
- The ESCB may execute fine-tuning and structural open market operations as from 4 January 1999.

Open market operations that were initiated by national central banks prior to 1 January 1999 will remain under the responsibility of those national central banks until maturity.

Debt certificates issued by national central banks prior to 1 January 1999 will remain under the responsibility of those national central banks until maturity. These certificates will be eligible as tier one assets for mobilisation and pledging in ESCB monetary policy operations (see Section 6.2).

**c. Standing facilities**

The ESCB standing facilities will be operational as from 4 January 1999. Operations within the framework of the standing facilities of national central banks that were initiated prior to 1 January 1999 will remain under the responsibility of those national central banks until maturity.

**d. Eligible assets**

The eligibility criteria and risk control measures, as specified by the ECB and the national central banks for assets underlying ESCB monetary policy operations, will be applied for monetary policy operations initiated by the ESCB after 1 January 1999. For operations initiated by the national central banks prior to 1 January 1999, the eligibility criteria and the risk control measures for underlying assets will remain the responsibility of those national central banks until the maturity of those operations.

## **8.2 Minimum reserves**

**a. Implementation date**

The ESCB's minimum reserve system will apply as from 1 January 1999. National central banks will apply the necessary provisions to ensure that their national minimum reserve systems are terminated by 31 December 1998 at the latest.

**b. Determination of the reserve base for the first maintenance period**

The reserve base of an institution for the first maintenance period of the ESCB's minimum reserve system will be defined in relation to elements of its opening balance sheet on 1 January 1999, as reported to the national central banks within the general framework of the ECB's money and banking statistics.<sup>52</sup>

Small institutions which are normally subject to lighter reporting requirements than other Monetary Financial Institutions are required to report their opening balance sheet on 1 January 1999<sup>52</sup> to the national central banks with a reporting deadline of 10 February 1999. For these small institutions, the balance sheet data as of 1 January 1999 provide the basis for determining the reserve base for the first four maintenance periods.

**c. The dates of the first maintenance period**

The first maintenance period of the ESCB's minimum reserve system starts on 1 January 1999 and ends on 23 February 1999.

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<sup>52</sup> It is understood that the opening balance sheet on 1 January 1999 corresponds to the closing balance sheet on 31 December 1998.

# **Annexes**

# Annex 1

## **Examples of monetary policy operations and procedures**

### **List of examples**

- Example 1     Liquidity-providing reverse transaction by fixed rate tender
- Example 2     Liquidity-providing reverse transaction by variable rate tender
- Example 3     Issuance of ECB debt certificates by variable rate tender
- Example 4     Liquidity-absorbing foreign exchange swap by variable rate tender
- Example 5     Liquidity-providing foreign exchange swap by variable rate tender
- Example 6     Risk control measures

### Example 1

#### Liquidity-providing reverse transaction by fixed rate tender

The ECB decides to provide liquidity to the market by means of a reverse transaction organised with a fixed rate tender procedure.

Three counterparties submit the following bids:

<b>Counterparty</b>	<b>Bid</b> (EUR millions)
Bank 1	30
Bank 2	40
Bank 3	70
<b>Total</b>	140

The ECB decides to allot a total of EUR 105 million.

The percentage of allotment is:

$$\frac{105}{(30 + 40 + 70)} = 75\%$$

The allotment to the counterparties is:

<b>Counterparty</b>	<b>Bid</b> (EUR millions)	<b>Allotment</b> (EUR millions)
Bank 1	30	22.5
Bank 2	40	30.0
Bank 3	70	52.5
<b>Total</b>	140	105.0

## Example 2

### Liquidity-providing reverse transaction by variable rate tender

The ECB decides to provide liquidity to the market by means of a reverse transaction organised with a variable rate tender procedure.

Three counterparties submit the following bids:

Interest rate (%)	Amount (EUR millions)			Total bids	Cumulative bids
	Bank 1	Bank 2	Bank 3		
3.15				0	0
3.10		5	5	10	10
3.09		5	5	10	20
3.08		5	5	10	30
3.07	5	5	10	20	50
3.06	5	10	15	30	80
3.05	10	10	15	35	115
3.04	5	5	5	15	130
3.03	5		10	15	145
<b>Total</b>	30	45	70	145	

The ECB decides to allot EUR 94 million, implying a marginal interest rate of 3.05%.

All bids above 3.05% (for a cumulative amount of EUR 80 million) are fully satisfied. At 3.05% the percentage of allotment is:

$$\frac{94 - 80}{35} = 40\%$$

The allotment to Bank 1 at the marginal interest rate is, for example:

$$0.4 \times 10 = 4$$

The total allotment to Bank 1 is:

$$5 + 5 + 4 = 14$$

The allotment results can be summarised as follows:

Counterparties	Amount (EUR millions)			Total
	Bank 1	Bank 2	Bank 3	
<b>Total bids</b>	30.0	45.0	70.0	145
<b>Total allotment</b>	14.0	34.0	46.0	94

If the allotment procedure follows a single rate (Dutch) auction, the interest rate applied to the amounts allotted to the counterparties is 3.05%.

If the allotment procedure follows a multiple rate (American) auction, no unique interest rate is applied to the amounts allotted to the counterparties; for example, Bank 1 receives EUR 5 million at 3.07%, EUR 5 million at 3.06% and EUR 4 million at 3.05%.

### Example 3

#### Issuance of ECB debt certificates by variable rate tender

The ECB decides to absorb liquidity from the market by issuing debt certificates by a variable rate tender procedure.

Three counterparties submit the following bids:

Interest rate (%)	Amount (EUR millions)			Total bids	Cumulative bids
	Bank 1	Bank 2	Bank 3		
3.00				0	0
3.01	5		5	10	10
3.02	5	5	5	15	25
3.03	5	5	5	15	40
3.04	10	5	10	25	65
3.05	20	40	10	70	135
3.06	5	10	10	25	160
3.08	5		10	15	175
3.10		5		5	180
<b>Total</b>	55	70	55	180	

The ECB decides to allot a nominal amount of EUR 124.5 million, implying a marginal interest rate of 3.05%.

All bids below 3.05% (for a cumulative amount of EUR 65 million) are fully satisfied. At 3.05% the percentage of allotment is:

$$\frac{124.5 - 65}{70} = 85\%$$

The allotment to Bank 1 at the marginal interest rate is, for example:

$$0.85 \times 20 = 17$$

The total allotment to Bank 1 is:

$$5 + 5 + 5 + 10 + 17 = 42$$

The allotment results can be summarised as follows:

Counterparties	Amount (EUR millions)			Total
	Bank 1	Bank 2	Bank 3	
<b>Total bids</b>	55.0	70.0	55.0	180.0
<b>Total allotment</b>	42.0	49.0	33.5	124.5

#### Example 4

#### Liquidity-absorbing foreign exchange swap by variable rate tender

The ECB decides to absorb liquidity from the market by executing a foreign exchange swap on the EUR/USD rate by means of a variable rate tender procedure. (Note: The euro is traded at a premium in this example.)

Three counterparties submit the following bids:

Swap points (× 10,000)	Amount (EUR millions)				
	Bank 1	Bank 2	Bank 3	Total bids	Cumulative bids
6.84				0	0
6.80	5		5	10	10
6.76	5	5	5	15	25
6.71	5	5	5	15	40
6.67	10	10	5	25	65
6.63	25	35	40	100	165
6.58	10	20	10	40	205
6.54	5	10	10	25	230
6.49		5		5	235
<b>Total</b>	65	90	80	235	

The ECB decides to allot EUR 158 million, implying 6.63 marginal swap points. All bids above 6.63 (for a cumulative amount of EUR 65 million) are fully satisfied. At 6.63 the percentage of allotment is:

$$\frac{158 - 65}{100} = 93\%$$

The allotment to Bank 1 at the marginal swap points is, for example:

$$0.93 \times 25 = 23.5$$

The total allotment to Bank 1 is:

$$5 + 5 + 5 + 10 + 23.5 = 48.5$$

The allotment results can be summarised as follows:

Counterparties	Amount (EUR millions)			Total
	Bank 1	Bank 2	Bank 3	
<b>Total bids</b>	65.0	90.0	80.0	235.0
<b>Total allotment</b>	48.5	52.5	57.0	158.0

The ECB fixes the spot EUR/USD exchange rate for the operation at 1.1300.

If the allotment procedure follows a single rate (Dutch) auction, at the start date of the operation the ESCB buys EUR 158,000,000 and sells USD 178,540,000. At the maturity date of the operation, the ESCB sells EUR 158,000,000 and buys USD 178,644,754 (the forward exchange rate is  $1.130663 = 1.1300 + 0.000663$ ).

**Example 4 (continued)**

If the allotment procedure follows a multiple rate (American) auction, the ESCB exchanges the amounts of EUR and USD as shown in the following table:

Spot transaction			Forward transaction		
Exchange rate	Buy EUR	Sell USD	Exchange rate	Sell EUR	Buy USD
1.1300			1.130684		
1.1300	10,000,000	11,300,000	1.130680	10,000,000	11,306,800
1.1300	15,000,000	16,950,000	1.130676	15,000,000	16,960,140
1.1300	15,000,000	16,950,000	1.130671	15,000,000	16,960,065
1.1300	25,000,000	28,250,000	1.130667	25,000,000	28,266,675
1.1300	93,000,000	105,090,000	1.130663	93,000,000	105,151,659
1.1300			1.130658		
1.1300			1.130654		
1.1300			1.130649		
<b>Total</b>	158,000,000	178,540,000		158,000,000	178,645,339

### Example 5

#### Liquidity-providing foreign exchange swap by variable rate tender

The ECB decides to provide liquidity to the market by executing a foreign exchange swap on the EUR/USD rate by means of a variable rate tender procedure. (Note: The euro is traded at a premium in this example.)

Three counterparties submit the following bids:

Swap points (× 10,000)	Amount (EUR millions)			Total bids	Cumulative bids
	Bank 1	Bank 2	Bank 3		
6.23					
6.27	5		5	10	10
6.32	5		5	10	20
6.36	10	5	5	20	40
6.41	10	10	20	40	80
6.45	20	40	20	80	160
6.49	5	20	10	35	195
6.54	5	5	10	20	215
6.58		5		5	220
<b>Total</b>	60	85	75	220	

The ECB decides to allot EUR 197 million, implying 6.54 marginal swap points. All bids below 6.54 (for a cumulative amount of EUR 195 million) are fully satisfied. At 6.54 the percentage of allotment is:

$$\frac{197 - 195}{20} = 10\%$$

The allotment to Bank 1 at the marginal swap points is, for example:

$$0.10 \times 5 = 0.5$$

The total allotment to Bank 1 is:

$$5 + 5 + 10 + 10 + 20 + 5 + 0.5 = 55.5$$

The allotment results can be summarised as follows:

Counterparties	Amount (EUR millions)			Total
	Bank 1	Bank 2	Bank 3	
<b>Total bids</b>	60.0	85.0	75.0	220
<b>Total allotment</b>	55.5	75.5	66.0	197

The ECB fixes the spot EUR/USD exchange rate for the operation at 1.1300.

If the allotment procedure follows a single-rate (Dutch) auction, at the start date of the operation the ESCB sells EUR 197,000,000 and buys USD 222,610,000. At the maturity date of the operation, the ESCB buys EUR 197,000,000 and sells USD 222,738,838 (the forward exchange rate is  $1.130654 = 1.1300 + 0.000654$ ).

**Example 5 (continued)**

If the allotment procedure follows a multiple rate (American) auction, the ESCB exchanges the amounts of EUR and USD as shown in the following table:

Spot transaction			Forward transaction		
Exchange rate	Sell EUR	Buy USD	Exchange rate	Buy EUR	Sell USD
1.1300			1.130623		
1.1300	10,000,000	11,300,000	1.130627	10,000,000	11,306,270
1.1300	10,000,000	11,300,000	1.130632	10,000,000	11,306,320
1.1300	20,000,000	22,600,000	1.130636	20,000,000	22,612,720
1.1300	40,000,000	45,200,000	1.130641	40,000,000	45,225,640
1.1300	80,000,000	90,400,000	1.130645	80,000,000	90,451,600
1.1300	35,000,000	39,550,000	1.130649	35,000,000	39,572,715
1.1300	2,000,000	2,260,000	1.130654	2,000,000	2,261,308
1.1300			1.130658		
<b>Total</b>	197,000,000	222,610,000		197,000,000	222,736,573

## Example 6

### Risk control measures

This example illustrates the risk control framework applied to underlying assets to the ESCB's liquidity-providing operations.<sup>1</sup> The example is based on the assumption that a counterparty participates in the following ESCB monetary policy operations:

- A main refinancing operation starting on 28 July 1999 and ending on 11 August 1999 where the counterparty is allotted EUR 50 million;
- A longer-term operation starting on 29 July 1999 and ending on 28 October 1999 where the counterparty is allotted EUR 45 million;
- A main refinancing operation starting on 4 August 1999 and ending on 18 August 1999 where the counterparty is allotted EUR 10 million.

The characteristics of the underlying assets used by the counterparty to cover these operations are specified in Table I below.

**Table I. Underlying assets used in the transactions**

Characteristics						Prices (including accrued interest)				
Name	Maturity date	Coupon definition	Coupon frequency	Residual maturity	Haircut	28/07/1999	29/07/1999	04/08/1999	11/08/1999	18/08/1999
Bond A	26/08/2001	Fixed	6 months	2 years	1.5%	102.63%	101.98%	100.57%	101.42%	100.76%
FRN B	15/11/2002	Pre-fixed floating	12 months	3 years	0.0%		98.35%	97.95%	98.15%	98.75%
Bond C	05/05/2010	Zero coupon		11 years	5.0%			55.125%	53.375%	
Bond D	11/03/2005	Fixed	12 months	6 years	2.0%				97.50%	

### Earmarking system

First, it is assumed that the transactions are carried out with a national central bank using a system where underlying assets are earmarked for each transaction. The risk control framework can then be described as follows (see also Table 2 below):

1. For each of the transactions entered into by the counterparty, an initial margin of 2% is applied since the maturity of the operations exceeds one business day.

<sup>1</sup> The example is based on the assumption that in the calculation of the need for a margin call, accrued interest on the liquidity provided is taken into account and a trigger point of 1% of the liquidity provided is applied. However, owing to operational differences in the collateral management systems of national central banks, the treatment of accrued interest and the use of a trigger point may differ across national central banks at the start of Stage Three.

**Example 6 (continued)**

2. On 28 July 1999 the counterparty enters into a repurchase transaction with the national central bank, which purchases Bond A for EUR 50 million. Bond A is a fixed coupon bond maturing on 26 August 2001. It thus has a residual maturity of 2 years, therefore requiring a valuation haircut of 1.5%. The market price of Bond A at its reference market on that day is 102.63%, which includes the accrued interest on the coupon (i.e. if Bond A pays a coupon of 2.5% every six months, on 28 July 1999 the clean price is 100.52% and the accrued coupon 2.11%). The counterparty is required to provide an amount of Bond A which, after deduction of the 1.5% valuation haircut, exceeds EUR 51 million (corresponding to the allotted amount of EUR 50 million plus the initial margin of 2%). The counterparty therefore delivers Bond A to a nominal amount of EUR 50.5 million, the adjusted market value of which is EUR 51,050,728 on that day.
3. On 29 July 1999 the counterparty enters into a repurchase transaction with the national central bank, which purchases EUR 21.5 million of Bond A (market price 101.98%, valuation haircut 1.5%) and EUR 25 million of Asset B (market price 98.35%). Asset B is a floating rate note (FRN) with yearly pre-fixed coupon payments, to which a 0% valuation haircut is applied. The adjusted market value of Bond A and FRN B on that day is EUR 46,184,315, thus exceeding the required amount of EUR 45,900,000 (EUR 45 million plus the initial margin of 2%).

On 4 August 1999 the underlying assets are revalued: the market price of Bond A is 100.57% and the market price of FRN B is 97.95%. Accrued interests amount to EUR 34,028 on the main refinancing operation initiated on 28 July 1999 and EUR 28,125 on the longer-term refinancing operation initiated on 29 July 1999. As a result, the adjusted market value of Bond A in the first transaction falls to below the transaction's margined amount (liquidity provided plus accrued interest plus initial margin) by approximately EUR 1 million. The counterparty delivers EUR 1.1 million of Bond A in nominal value terms, which, after deducting a 1.5% haircut from the market value based on a price of 100.57%, restores sufficient collateral coverage.<sup>2</sup> No margin call is needed on the second transaction because the adjusted market value of the underlying assets used in this transaction (EUR 45,785,712), although slightly below the margined amount (EUR 45,928,688), does not fall below the trigger level (the margined amount minus 1%) of EUR 45,478,588.<sup>3</sup>

4. On 4 August 1999 the counterparty enters into a repurchase transaction with the national central bank, which purchases EUR 10 million of Bond C. Bond C is a zero coupon bond with a market value of 55.125% on that day. The counterparty delivers EUR 19.5 million of Bond C in nominal value terms. The zero coupon bond has a residual maturity of around 11 years and therefore requires a valuation haircut of 5%.
5. On 11 August the repurchase transaction entered into on 28 July 1999 matures. On the same day the underlying assets are revalued, without resulting in any margin call

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<sup>2</sup> National central banks may perform margin calls in cash rather than securities.

<sup>3</sup> If a margin had to be paid to the counterparty by the national central bank in relation to the second transaction, such a margin may, in certain cases, be netted out with the margin paid to the national central bank by the counterparty in relation to the first transaction. As a result, there would only be one margin settlement.

**Example 6 (continued)**

for the transaction entered into on 29 July 1999. However, a margin call is required for the transaction entered into on 4 August 1999 because the market price of Bond C has fallen to 53.375%. The counterparty delivers EUR 400,000 of a fixed rate Bond D in nominal value, the residual maturity of which is around 6 years (2% haircut). The resulting adjusted market value of Bonds C and D is now EUR 10,269,919, which is above the margined amount of EUR 10,206,942 (taking account of EUR 6,806 accrued interest).

6. On 18 August 1999 the main refinancing operation entered into on 4 August 1999 matures. No margin call is required on the longer-term refinancing operation entered into on 11 August 1999, where accrued interest now amounts to EUR 93,750.

**Pooling system**

Second, it is assumed that the transactions are carried out with a national central bank using a pooling system. Assets included in the pool of assets used by the counterparty are not earmarked for specific transactions.

The same sequence of transactions is used in this example as in the above example illustrating an earmarking system. The main difference is that, at revaluation dates, the adjusted market value of all the assets in the pool has to cover the margined amount of all of the counterparty's outstanding operations with the national central bank. As a result, the margin call occurring on 4 August 1999 is slightly higher (EUR 1,139,746) than was required in the earmarking system, owing to the trigger effect on the transaction entered into on 29 July 1999. Moreover, on 11 August 1999, when the main refinancing operation entered into on 28 July 1999 ends, the counterparty may keep the assets on its pledge account and thus automatically benefit from a capacity to borrow up to EUR 51,417,791 (EUR 50,873,237 if no trigger points are applied) on an intraday basis or overnight (with an initial margin of 1% applied to these transactions). The risk control framework in the pooling system is described in Table 3 below.

**Example 6 (continued)**

Table 2. Earmarking system

Date	Outstanding transactions	Start date	End date	Interest rate	Amount	Accrued interest	Initial margin amount	Margined amount	Lower trigger amount	Upper trigger amount	Adjusted market value	Margin call
28/07/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	0	2%	51,000,000	50,500,000	51,500,000	51,050,728	0
29/07/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	4,861	2%	51,004,958	50,504,958	51,504,958	50,727,402	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	0	2%	45,900,000	45,450,000	46,350,000	46,184,315	0
04/08/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	34,028	2%	51,034,708	50,534,708	51,534,708	50,026,032	-1,008,676
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	28,125	2%	45,928,688	45,478,688	46,378,688	45,785,712	0
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	0	2%	10,200,000	10,100,000	10,300,000	10,211,906	0
04/08/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	34,028	2%	51,034,708	50,534,708	51,534,708	51,115,708	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	28,125	2%	45,928,688	45,478,688	46,378,688	45,785,712	0
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	0	2%	10,200,000	10,100,000	10,300,000	10,211,906	0
11/08/1999	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	60,938	2%	45,962,156	45,512,156	46,412,156	46,015,721	0
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	6,806	2%	10,206,942	10,106,942	10,306,942	9,887,719	-319,223
11/08/1999	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	60,938	2%	45,962,156	45,512,156	46,412,156	46,015,721	0
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	6,806	2%	10,206,942	10,106,942	10,306,942	10,269,919	0
18/08/1999	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	93,750	2%	45,995,625	45,545,625	46,445,625	46,025,949	0

**Example 6 (continued)**

**Table 3. Pooling system**

Date	Outstanding transactions	Start date	End date	Interest rate	Amount	Accrued interest	Initial margin	Margined amount	Lower trigger amount	Upper trigger amount	Adjusted market value	Margin call
28/07/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	0	2%	51,000,000	50,500,000	51,500,000	51,050,728	0
29/07/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	4,861	2%	96,904,958	95,954,958	97,854,958	96,911,716	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	0	2%					
04/08/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	34,028	2%	107,163,396	106,113,396	108,213,396	106,023,650	-1,139,746
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	28,125	2%					
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	0	2%					
04/08/1999	Main refinancing	28/07/1999	11/08/1999	3.50%	50,000,000	34,028	2%	107,163,396	106,113,396	108,213,396	107,212,388	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	28,125	2%					
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	0	2%					
11/08/1999								56,169,098	55,619,098	56,719,098	107,551,067	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	60,938	2%					
	Main refinancing	04/08/1999	18/08/1999	3.50%	10,000,000	6,806	2%					
18/08/1999								45,995,625	45,545,625	46,445,625	97,337,475	0
	Longer-term refinancing	29/07/1999	28/10/1999	3.75%	45,000,000	93,750	2%					

# Annex 2

## Glossary

**Actual/360:** the *day-count convention* applied for the calculation of interest on a credit, implying that the interest is calculated over the actual number of calendar days over which the credit is extended, on the basis of a 360-day year. This day-count convention will be applied in *ESCB* monetary policy operations.

**American auction:** see *multiple rate auction*.

**Averaging provision:** a provision allowing *counterparties* to fulfil their *reserve requirements* on the basis of their average *reserve holdings* over the *maintenance period*. The averaging provision contributes to the stabilisation of money market interest rates by giving institutions an incentive to smooth the effects of temporary liquidity fluctuations. The *ESCB's* minimum reserve system allows for averaging.

**Bilateral procedure:** a procedure whereby the central bank deals directly with only one or a few *counterparties*, without making use of tender procedures. Bilateral procedures include operations executed through stock exchanges or market agents.

**Book-entry system:** an accounting system that permits the transfer of claims (e.g. securities and other financial assets) without the physical movement of paper documents or certificates. See also *dematerialisation*.

**Central securities depository (CSD):** a facility for holding securities which enables securities transactions to be processed by book entry. Physical securities may be immobilised by the depository or securities may be dematerialised (i.e. so that they exist only as electronic records). In addition to safekeeping, a CSD may incorporate comparison, clearing and settlement functions.

**Collection of fixed-term deposits:** a monetary policy instrument that may be used by the *ESCB* for fine-tuning purposes where the *ESCB* offers remuneration on *counterparties'* fixed-term deposits on accounts with the *national central banks* in order to absorb liquidity from the market.

**Correspondent banking:** an arrangement under which one bank provides payment and other services to another bank. Payments through correspondents are often executed through reciprocal accounts (so-called *nostro* and *loro* accounts), to which standing credit lines may be attached. Correspondent banking services are primarily provided across international boundaries.

**Correspondent central banking model (CCBM):** a model established by the *ESCB* with the aim of enabling *counterparties* to use underlying assets in a cross-border context. In the CCBM, *national central banks* act as custodians for each other. This implies that each national central bank has a securities account in its securities administration for each of the other national central banks (and for the *ECB*). The *ESCB* may apply specific solutions for the cross-border use of non-marketable assets.

**Counterparty:** the opposite party in a financial transaction (e.g. in a transaction with the central bank).

**Credit institution:** refers in this document to an institution covered by the definition contained in Article 1 of the First Banking Co-ordination Directive (77/780/EEC), i.e. "an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account".

**Custodian:** an institution that undertakes the safekeeping and administration of securities and other financial assets on behalf of others.

**Day-count convention:** the convention regulating the number of days included in the calculation of interest on credits. The *ESCB* will apply the day-count convention *actual/360* in its monetary policy operations.

**Delivery versus payment system (DVP):** a mechanism in an exchange-for-value settlement system that ensures that the *final transfer* of an asset occurs if and only if the final transfer of another (other) asset(s) occurs.

**Dematerialisation:** the elimination of physical certificates or documents of title which represent ownership of financial assets so that the financial assets exist only as accounting records.

**Deposit facility:** a *standing facility* of the *ESCB* which *counterparties* may use to make overnight deposits remunerated at a pre-specified interest rate.

**Depository:** an agent with the primary role of recording securities either physically or electronically and keeping records of the ownership of the securities.

**Dutch auction:** see *single rate auction*.

**Earmarking system:** a system for central banks' collateral management where liquidity is provided against assets earmarked for each individual transaction.

**ESCB business day:** any day on which the ECB and at least one national central bank are open for the purpose of conducting *ESCB* monetary policy operations.

**ECB time:** the time of the place in which the ECB is located.

**EEA (European Economic Area) countries:** the EU Member States and Iceland, Liechtenstein and Norway.

**End-of-day:** the time of the business day (after the *TARGET system* has closed) at which the payments processed in the *TARGET system* are finalised for the day.

**Equity price risk:** the risk of loss due to movements in equity prices. The *ESCB* will be exposed to equity price risk in its monetary policy operations to the extent that equities are considered to be eligible as *tier two assets*.

**Euro area:** the area covering those EU Member States which have adopted the euro as the single currency in accordance with the *Treaty*.

**European System of Central Banks (ESCB):** refers in this document to the European Central Bank (ECB) and the *national central banks* of the EU *Member States* which have adopted the single currency in accordance with the *Treaty*. (It should be noted that national central banks of Member States which have not adopted the single currency in accordance with the *Treaty* retain their powers in the field of monetary policy according to national law and are thus not involved in the conduct of the *ESCB's* monetary policy.)

**Final transfer:** an irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer.

**Fine-tuning operation:** a non-regular *open market operation* executed by the central bank mainly in order to deal with unexpected liquidity fluctuations in the market.

**Fixed rate instrument:** a financial instrument for which the coupon is fixed throughout the life of the instrument.

**Fixed rate tender:** a tender procedure where the interest rate is specified in advance by the central bank and participating *counterparties* bid the amount of money they want to transact at the fixed interest rate.

**Floating rate instrument:** a financial instrument for which the coupon is periodically reset relative to a reference index to reflect changes in short or medium-term market interest rates. Floating rate instruments have either *pre-fixed coupons* or *post-fixed coupons*.

**Foreign exchange swap:** simultaneous spot and forward transactions of one currency against another. The *ESCB* will execute open market monetary policy operations in the form of foreign exchange swaps where the *national central banks* (or the ECB) buy (or sell) euro spot against a foreign currency and at the same time sell (or buy) it back forward.

**Haircut:** see *valuation haircut*.

**Initial margin:** a risk control measure applied in *reverse transactions* implying that the collateral required for a transaction is equal to the credit extended to the *counterparty* plus the value of the initial margin. The *ESCB* applies initial margins differentiated according to the *ESCB*'s exposure time to the counterparty for a given transaction.

**Intraday credit:** the credit extended and reimbursed within a period of less than one business day. The *ESCB* will extend intraday credit (based on underlying assets) to eligible *counterparties* for payment systems purposes.

**International Securities Identification Number (ISIN):** an international identification code assigned to securities issued in financial markets.

**Issuer:** the entity which is obligated on a security or other financial instrument.

**Longer-term refinancing operation:** a regular *open market operation* to be executed by the *ESCB* in the form of a *reverse transaction*. Longer-term refinancing operations are executed through monthly *standard tenders* and have a maturity of three months.

**Lump-sum allowance:** a fixed amount which an institution may deduct in the calculation of its *reserve requirement* in the *ESCB*'s minimum reserve system.

**Main refinancing operation:** a regular *open market operation* executed by the *ESCB* in the form of a *reverse transaction*. Main refinancing operations are conducted through weekly *standard tenders* and have a maturity of two weeks.

**Maintenance period:** the period over which compliance with *reserve requirements* is calculated. The maintenance period for *ESCB* minimum reserves would be one month, starting on a fixed day of each month (e.g. the maintenance period may start on the 24th calendar day of each month and end on the 23rd calendar day of the following month).

**Margin call:** a procedure related to the application of *variation margins*, implying that if the value, as regularly measured, of the underlying assets falls below a certain level, central banks may require *counterparties* to supply additional assets (or cash). Similarly, if the value of the underlying assets, following their revaluation, were to exceed the amount owed by the counterparties plus the variation margin, the central bank returns excess assets (or cash) to the counterparty.

**Marginal interest rate:** the interest rate at which the total tender allotment is exhausted.

**Marginal lending facility:** a *standing facility* of the *ESCB* which *counterparties* may use to receive overnight credit against a pre-specified interest rate.

**Marginal swap point quotation:** the *swap point* quotation at which the total tender allotment is exhausted.

**Marking to market:** see *variation margin*.

**Maturity date:** the date on which a monetary policy operation expires. In the case of a *repurchase agreement* or swap, the maturity date corresponds to the *repurchase date*.

**Maximum bid limit:** the limit on the largest acceptable bid from an individual *counterparty* in a tender operation. The *ESCB* may impose maximum bid limits in order to avoid disproportionately large bids from individual counterparties.

**Member State:** refers in this document to an EU Member State which has adopted the single currency in accordance with the *Treaty*.

**Minimum allotment:** the limit on the lowest amount to be allotted to *counterparties* in a tender operation. The *ESCB* may decide to allot a minimum amount to each counterparty in its tender operations.

**Monetary Financial Institution:** a *credit institution* or other financial institution, the business of which is to receive deposits and/or close substitutes for deposits from the public and which, for its own account (at least in economic terms), grants credit and/or makes investments in securities.

**Multiple rate auction (American auction):** an auction at which the allotment interest rate (or price/*swap point*) equals the interest rate offered in each individual bid.

**National central bank (NCB):** refers in this document to a central bank of an EU *Member State* which has adopted the single currency in accordance with the *Treaty*.

**NCB business day:** any day on which the *national central bank* of a specific *Member State* is open for the purpose of conducting *ESCB* monetary policy operations. In some Member States branches of the national central bank may be closed on NCB business days owing to local or regional bank holidays. In such cases, the relevant national central bank is responsible for informing the *counterparties* in advance of the arrangements to be made for transactions involving those branches.

**Open market operation:** an operation executed on the initiative of the central bank in the financial markets involving one of the following transactions: 1) buying or selling assets outright (spot or forward); 2) buying or selling assets under a *repurchase agreement*; 3) lending or borrowing against underlying assets as collateral; 4) the issuance of central bank debt certificates; or 5) the collection of deposits.

**Outright transaction:** a transaction where the central bank buys or sells assets outright in the market (spot or forward).

**Pooling system:** a system for central banks' collateral management where the *counterparties* provide a pool of assets to serve as collateral in their transactions with the central bank. In contrast to an *earmarking system*, the underlying assets are not earmarked for individual transactions in a pooling system.

**Post-fixed coupon:** a coupon on *floating rate instruments* which is determined on the basis of the values taken by the reference index at a certain date (certain dates) during the coupon accrual period.

**Pre-fixed coupon:** a coupon on *floating rate instruments* which is determined on the basis of the values taken by the reference index at a certain date (certain dates) before the start of the coupon accrual period.

**Purchase date:** the date on which the sale of purchased assets by the seller to the buyer becomes effective.

**Purchase price:** the price at which purchased assets are sold or are to be sold to the buyer by the seller.

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

**Repo operation:** a liquidity-providing *reverse transaction* based on a *repurchase agreement*.

**Repurchase agreement:** an arrangement whereby an asset is sold while the seller simultaneously obtains the right and obligation to repurchase it at a specific price on a future date or on demand. Such an agreement is similar to collateralised borrowing, with the exception that ownership of the securities is not retained by the seller. The *ESCB* will use repurchase agreements with a fixed maturity in its *reverse transactions*.

**Repurchase date:** the date on which the buyer is obliged to sell back assets to the seller in relation to a transaction under a *repurchase agreement*.

**Repurchase price:** the price at which the buyer is obliged to sell back assets to the seller in relation to a transaction under a *repurchase agreement*. The repurchase price equals the sum of the *purchase price* and the price differential corresponding to the interest on the extended liquidity over the maturity of the operation.

**Reserve account:** an account with the central bank on which a *counterparty's reserve holdings* are maintained. The counterparties' *settlement accounts* with the *national central banks* may be used as reserve accounts.

**Reserve base:** the sum of the eligible balance sheet items (in particular liabilities) which constitute the basis for calculating the *reserve requirement* of an institution.

**Reserve holdings:** *counterparties'* holdings on their *reserve accounts* which serve to fulfil *reserve requirements*.

**Reserve ratio:** the ratio defined by the central bank for each category of eligible balance sheet items included in the *reserve base*. The ratios are used to calculate *reserve requirements*.

**Reserve requirement:** the requirement for institutions to hold minimum reserves with the central bank. In the *ESCB's* minimum reserve system, the reserve requirement of an institution is calculated by multiplying the *reserve ratio* for each category of items in the *reserve base* with the amount of those items in the institution's balance sheet. In addition, institutions are allowed to deduct a *lump-sum allowance* from their reserve requirement.

**Reverse transaction:** an operation whereby the central bank buys or sells assets under a *repurchase agreement* or conducts credit operations against collateral.

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

**Safe custody account:** a securities account managed by the central bank on which *credit institutions* can place securities deemed suitable to back central bank operations.

**Settlement account:** an account held by a direct participant in the national *RTGS system* with the central bank for the purpose of processing payments.

**Settlement date:** the date on which a transaction is settled. The settlement might take place on the same day as the trade (same-day settlement) or can occur one or several days after the trade (the settlement date is specified as the *trade date* (T) + the settlement lag).

**Single rate auction (Dutch auction):** an auction at which the allotment interest rate (or price/*swap point*) applied for all satisfied bids is equal to the *marginal interest rate*.

**Solvency risk:** the risk of loss due to the failure (bankruptcy) of an issuer of a financial asset or due to the insolvency of the *counterparty*.

**Standard tender:** a *tender procedure* to be used by the *ESCB* in its regular *open market operations*. Standard tenders are carried out within a time frame of 24 hours. All *counterparties* fulfilling the general eligibility criteria are entitled to submit bids in standard tenders.

**Standing facility:** a central bank facility available to *counterparties* at their own initiative. The *ESCB* will offer two overnight standing facilities: the *marginal lending facility* and the *deposit facility*.

**Start date:** the date on which the first leg of a monetary policy operation is settled. The start date corresponds to the *purchase date* for operations based on *repurchase agreements* and *foreign exchange swaps*.

**Strip (separate trading of interest and principal):** a *zero coupon bond* created in order to trade separately the claims on particular cash flows of a security and the principal of the same instrument.

**Structural operation:** an *open market operation* executed by the *ESCB* mainly in order to adjust the structural liquidity position of the financial sector vis-à-vis the *ESCB*.

**Swap point:** the difference between the exchange rate of the forward transaction and the exchange rate of the spot transaction in a *foreign exchange swap*.

**TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system:** a payment system consisting of one *RTGS (real-time gross settlement) system* in each of the *Member States* participating in the *euro area* at the start of Stage Three of Economic and Monetary Union. The national RTGS systems will be interconnected via the Interlinking mechanism so as to enable same-day cross-border transfers throughout the euro area. RTGS systems of non-euro area EU Member States may also be connected to TARGET, provided that they are able to process euro.

**Tender procedure:** a procedure in which the central bank provides liquidity to or withdraws liquidity from the market on the basis of bids submitted by *counterparties* in competition with each other. The most competitive bids are satisfied with priority until the total amount of liquidity to be provided or withdrawn by the central bank is exhausted.

**Tier one asset:** a marketable asset fulfilling certain uniform *euro area*-wide eligibility criteria specified by the ECB. Among these criteria are the requirements that it must be denominated in euro, be issued (or guaranteed) by entities located in *EEA countries*, and be located in a *national central bank* or *CSD* of the euro area.

**Tier two asset:** a marketable or non-marketable asset for which specific eligibility criteria are established by the *national central banks*, subject to ECB approval.

**Trade date (T):** the date on which a trade (i.e. an agreement on a financial transaction between two *counterparties*) is struck. The trade date might coincide with the *settlement date* for the transaction (same-day settlement) or precede the settlement date by a specified number of business days (the settlement date is specified as T + the settlement lag).

**Treaty:** the Treaty establishing the European Community (or EC Treaty). It comprises the original EEC Treaty (Treaties of Rome) as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992).

**Trigger point:** a pre-specified level of the value of the liquidity provided at which a *margin call* is executed.

**Valuation date:** the date on which the assets underlying credit operations are valued.

**Valuation haircut:** a risk control measure applied to underlying assets used in *reverse transactions*, implying that the central bank calculates the value of underlying assets as the market value of the asset reduced by a certain percentage (haircut). The *ESCB* applies valuation haircuts reflecting features of the specific assets, such as the residual maturity.

**Variable rate tender:** a *tender procedure* whereby the *counterparties* bid both the amount of money they want to transact with the central bank and the interest rate at which they want to enter into the transaction.

**Variation margin (or marking to market):** the *ESCB* requires that a specified margin be maintained over time on the underlying assets used in its liquidity-providing *reverse transactions*. This implies that if the regularly measured market value of the underlying assets falls below a certain level, *counterparties* have to supply additional assets (or cash). Similarly, if the market value of the underlying assets, following their revaluation, were to exceed the amount owed by a counterparty plus the variation margin, the central bank would return excess assets (or cash) to the counterparty.

**Volume tender:** see *fixed rate tender*.

**Zero coupon bond:** a security paying only one cash flow during its life. For the purpose of this document, zero coupon bonds include securities issued at a discount and securities which deliver a single coupon at maturity. A *strip* is a special type of zero coupon bond.

# Annex 3

## **Selection of counterparties for foreign exchange intervention operations and foreign exchange swaps for monetary policy purposes**

The selection of counterparties for foreign exchange intervention operations and foreign exchange swaps for monetary policy purposes will follow a uniform approach irrespective of the chosen organisational set-up for the ESCB's external operations. Such a policy will not entail a substantial departure from existing market standards, as it will be derived by harmonising the national central banks' current best practices. The selection of counterparties to ESCB foreign exchange intervention operations will be based, primarily, on two sets of criteria.

The first set of criteria is inspired by the principle of prudence. A first prudential criterion is creditworthiness, which will be assessed using a combination of different methods (e.g. using credit ratings available from commercial agencies and the in-house analysis of capital and other business ratios); a second criterion is that the ESCB will require all its potential foreign exchange intervention counterparties to be subject to supervision by a recognised supervisor; and, as a third criterion, all the ESCB's foreign exchange intervention counterparties will need to follow high ethical standards and have a good reputation.

Once the minimum prudence requirement is fulfilled, the second set of criteria inspired

by efficiency considerations will be applied. A first efficiency criterion relates to competitive pricing behaviour and the counterparty's ability to handle large volumes, even in turbulent market conditions. The quality and coverage of information provided by counterparties feature among other efficiency criteria.

The pool of potential foreign exchange intervention counterparties will be sufficiently large and diverse to guarantee the necessary flexibility when implementing intervention operations. It will enable the ESCB to choose from among different intervention channels. In order to be able to intervene efficiently in different geographical locations and time zones, the ESCB will be able to use counterparties in any international financial centre. However, in practice, it is likely that a substantial share of the counterparties will be located in the euro area. For foreign exchange swaps executed for monetary policy purposes, only counterparties located in the euro area will be used.

The national central banks may apply limit-based systems in order to control credit exposures vis-à-vis individual counterparties in foreign exchange swaps conducted for monetary policy purposes.

# Annex 4

## **The reporting framework for the money and banking statistics of the European Central Bank**

### **1. Introduction**

On 7 July 1998 the European Central Bank (ECB) recommended to the Council of the European Union a Council Regulation (EC) concerning the collection of statistical information by the ECB. This Regulation defines the natural and legal persons which are subject to reporting requirements (the so-called reference reporting population), the confidentiality regime and the appropriate provisions for enforcement in accordance with Article 5.4 of the Statute of the European System of Central Banks and of the European Central Bank (the "Statute"). Furthermore, it entitles the ECB to use its regulatory power to:

- specify the actual reporting population;
- define the ECB's statistical reporting requirements and impose them on the actual reporting population of participating Member States;
- specify the conditions under which the ECB and the NCBs may exercise the right to verify or to carry out the compulsory collection of statistical information.

### **2. General considerations**

The purpose of the ECB Regulation concerning the consolidated balance sheet of the Monetary Financial Institutions (MFI) sector is to enable the ECB, and in accordance with Article 5.2 of the Statute the national central banks (NCBs) - which will carry out the work to the extent possible - to collect the statistical material required for the fulfilment of the tasks of the European System of Central Banks (ESCB) and, in particular, its task to define and implement the monetary policy of the Community in accordance with

Article 105 (2), first indent of the Treaty establishing the European Community (the "Treaty"). The statistical information collected in accordance with the Regulation will be used to establish the consolidated balance sheet of the MFI sector, the principal aim of which is to provide the ECB with a comprehensive statistical picture of monetary developments covering the aggregated financial assets and liabilities of MFIs located in the participating Member States, which are viewed as one economic territory.

For statistical purposes the ECB's reporting requirements in the context of the consolidated balance sheet of the MFI sector are based on three main considerations.

First, the ECB will need to receive comparable, reliable and up-to-date statistical information which is collected under comparable terms and conditions throughout the euro area. Although the data will be collected in a decentralised way by NCBs in accordance with Articles 5.1 and 5.2 of the Statute and, as far as necessary, in combination with further statistical requirements for Community or national purposes, a sufficient degree of harmonisation and compliance with minimum reporting standards is required in view of the need to establish a reliable statistical basis for the definition and conduct of the single monetary policy.

Second, the reporting obligations set out in the Regulation have to observe the principles of transparency and legal certainty. The reason for this is that the Regulation will be binding in its entirety and directly applicable throughout the euro area. It will impose obligations directly on natural and legal persons on which the ECB may impose sanctions whenever the ECB's reporting requirements are not fulfilled (see Article 7

of the recommended Council Regulation (EC) concerning the collection of statistical information by the ECB). The reporting obligations will therefore be defined clearly and any discretion exercised by the ECB when verifying or compulsorily collecting statistical information will follow identifiable principles.

Third, the ECB will minimise the reporting burden involved (see Article 3 (a) of the recommended Council Regulation (EC) concerning the collection of statistical information by the ECB). Therefore, the statistical material collected by NCBs under the present regulation will also be used to calculate the reserve basis in accordance with the (forthcoming) ECB Regulation on minimum reserves.

For presentational reasons, the Articles of the Regulation restrict themselves to defining, in general terms, the actual reporting population, its reporting obligations and the principles according to which the ECB and the NCBs will normally exercise their competence to verify or compulsorily collect statistical information. The details of the statistical information to be reported in order to fulfil the ECB's statistical reporting requirements and the minimum standards to be followed are specified in Annexes 4.1 to 4.4. This follows the precedent set by the format of the Council Regulation (EC) on the European System of National and Regional Accounts 1995.

### **3. Actual reporting population; List of MFIs for statistical purposes**

Monetary Financial Institutions comprise resident Credit Institutions as defined in Community Law, and all other resident Financial Institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account (at least in economic terms), to grant credits and/or to

make investments in securities. The ECB establishes and maintains a list of institutions in accordance with this definition and following the classification principles specified in Annex 4.1. The competence to establish and maintain this List of Monetary Financial Institutions for statistical purposes pertains to the Executive Board of the ECB. The population of MFIs resident in the euro area will constitute the actual reporting population.

NCBs are entitled to grant derogations to small MFIs if the MFIs which contribute to the monthly consolidated balance sheet account for at least 95% of the total MFI balance sheet in each participating Member State. These derogations will enable NCBs to apply the method of "cutting off the tail".

### **4. Statistical reporting obligations**

To establish the consolidated balance sheet, the actual resident reporting population will have to report statistical information related to their balance sheet on a monthly basis. Further information will be required on a quarterly basis. The statistical information to be reported is further specified in Annex 4.1.

The relevant statistical data will be collected by the NCBs, which shall define the reporting procedures to be followed. The Regulation does not prevent NCBs from collecting, from the actual reporting population, the statistical information necessary to fulfil the statistical requirements of the ECB as part of a broader statistical reporting framework which the NCBs establish under their own responsibility in accordance with Community or national law or established practice and which serves other statistical purposes. However, this is without prejudice to the fulfilment of the statistical requirements set out in the Regulation. In specific cases, the ECB may rely on statistical information collected for such purposes to fulfil its requirements.

The consequence of a derogation being granted by an NCB as defined above is that the small MFIs concerned will only be subject to reduced reporting obligations (implying, inter alia, only quarterly reporting) which are compulsory in the context of minimum reserves and are specified in Annex 4.2. Requirements for those small MFIs that are not credit institutions are set out in Annex 4.3. However, MFIs which have been granted a derogation have the option of fulfilling the full reporting requirements.

#### **5. Use of statistical information under the ECB Regulation on minimum reserves**

To minimise the reporting burden and to avoid a duplication of collection of statistical information, the statistical information related to the balance sheet reported by MFIs under the present Regulation will also be used to calculate the reserve basis under the (forthcoming) Council Regulation (EC) on minimum reserves.

#### **6. Verification and compulsory collection**

The ECB itself and the NCBs will normally exercise the competence to verify and compulsorily collect statistical information whenever minimum standards for transmission, accuracy, conceptual compliance and revisions are not fulfilled. These minimum standards are set out in Annex 4.4.

#### **7. Non-participating Member States**

As a regulation under Article 34.1 does not confer any rights or impose any obligations on Member States with a derogation (Article 43.1 of the Statute) and on Denmark (Article 2 of the Protocol No. 12 on certain provisions relating to Denmark) and is not applicable to the United Kingdom (Article 8 of the UK Protocol), the present regulation is applicable only in the participating Member States.

However, Article 5 of the Statute concerning the competence of the ECB and the NCBs in the field of statistics and the forthcoming Council Regulation (EC) concerning the collection of statistical information by the ECB are applicable in all Member States. This also implies, together with Article 5 of the Treaty, an obligation on the non-participating Member States to design and implement at the national level all the measures that they consider appropriate in order to carry out the collection of statistical information needed to fulfil the ECB's statistical reporting requirements and the timely preparations in the field of statistics in order for them to become participating Member States. This obligation has been made explicit in Article 4 and Recital No. 17 of Council Regulation (EC) concerning the collection of statistical information by the European Central Bank. For reasons of transparency this special obligation is recalled in the recitals of this draft ECB Regulation.

# Annex 4.1

## Statistical reporting requirements

### PART I Description of requirements

1. The requirement is to produce on a regular basis a properly articulated consolidated balance sheet of the money-creating financial intermediaries for the euro area, seen as one economic territory, based on a complete and homogeneous monetary sector and reporting population.

2. The statistical system for the euro area covering the consolidated balance sheet of the Monetary Financial Institutions (MFI) sector therefore comprises the two following main elements:

- a List of Monetary Financial Institutions for statistical purposes; and
- a specification of the statistical information reported by these MFIs at monthly and quarterly frequency.

3. This statistical information is collected by the national central banks from the MFIs according to national procedures relying on the harmonised definitions and classifications set out in this Annex.

#### 1. Monetary Financial Institutions (MFIs)

4. The European Central Bank (ECB) establishes and updates on a regular basis the List of MFIs for statistical purposes in accordance with the classification principles outlined below. One important aspect is financial innovation, which is itself affected by the development of the Single Market and the move to Monetary Union, both of which affect the characteristics of financial instruments and induce financial institutions to change the focus of their business. Procedures for monitoring and continuous

checking ensure that the List of MFIs remains up-to-date, accurate, as homogeneous as possible and sufficiently stable for statistical purposes. The List of MFIs for statistical purposes includes an entry on whether or not institutions are legally subject to minimum reserves.

5. MFIs comprise resident credit institutions as defined in Community law and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or to make investments in securities.

6. Thus, in addition to central banks, the MFI sector comprises two broad groups of resident financial institutions. These are credit institutions as defined in Community law (“an undertaking whose business is to receive deposits or other repayable funds from the public (including the proceeds arising from the sales of bank bonds to the public) and to grant credit for its own account”)<sup>1</sup> and other MFIs, i.e. other resident financial institutions which fulfil the MFI definition set out in the previous paragraph, irrespective of the nature of their business. The degree of substitutability between the instruments issued by the latter and the deposits placed with credit institutions determines their classification, provided that they meet the MFI definition in other respects.

7. Substitutability for deposits in relation to financial instruments issued by financial intermediaries other than credit institutions

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<sup>1</sup> *Banking Co-ordination Directives (77/780/EEC of 12 December 1977 and 89/646/EEC of 30 December 1989), which include the “exempt credit institutions”.*

is determined by their liquidity, combining characteristics of transferability, convertibility, certainty and marketability, and having regard, where appropriate, to their term of issue.

8. For the purpose of defining substitutability for deposits in the previous paragraph:

- transferability refers to the possibility of mobilising funds placed in a financial instrument by using payment facilities, such as cheques, transfer orders, direct debits or similar means;
- convertibility refers to the possibility and the cost of converting financial instruments into currency or transferable deposits; the loss of fiscal advantages in such conversion may be considered a kind of penalty that reduces the degree of liquidity;
- certainty means knowing precisely in advance the liquidation value of a financial instrument in terms of national currency; and
- securities quoted and traded regularly on an organised market are considered to be marketable. For shares in open-end collective investment undertakings, there is no market in the usual sense. Nevertheless, investors know daily the quotation of the shares and can withdraw funds at this price.

9. In the case of collective investment undertakings (CIUs), money market funds (MMFs) fulfil the agreed conditions for liquidity and are therefore included in the MFI sector. MMFs are defined as those CIUs of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in other transferable debt instruments with a residual maturity up to and including one year, and/or in bank deposits, and/or which pursue a rate

of return that approaches the interest rates of money market instruments. The criteria identifying MMFs may be derived from the public prospectus, fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effects, of the CIUs.

10. For the purpose of defining MMFs in paragraph 9 above:

- *CIUs* shall mean undertakings of which the sole object is the collective investment of capital raised from the public and the units of which are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets. Such undertakings may be constituted according to law, either under the law of contract (as common funds managed by management companies), or trust law (as unit trusts) or under a statute (as investment companies);
- *Bank deposits* shall mean cash deposits made with credit institutions, repayable on demand or upon prior notice up to three months, or at agreed maturities of up to two years, inclusive of sums paid to credit institutions in respect of a transfer of securities under repurchase operations or securities loans;
- *Close substitutability for deposits in terms of liquidity* shall mean the ability of units of CIUs, under normal market circumstances, to be repurchased, redeemed or transferred, at the request of the holder, in a manner that the liquidity of the units is comparable to the liquidity of deposits;
- *Primarily* shall be deemed to be at least 85% of the investment portfolio;
- *Money market instruments* shall mean those classes of transferable debt

instruments which are normally dealt in on the money market (for example, certificates of deposit, commercial paper and banker's acceptances, Treasury and local authority bills) because of the following features:

- i.- *liquidity*, in the meaning that they can be repurchased, redeemed or sold at limited cost, in terms of low fees and narrow bid/offer spread, and with very short settlement delay; and
- ii.- *market depth*, in the meaning that they are traded on a market which is able to absorb a large volume of transactions, with such trading of large amounts having a limited impact on their price; and
- iii.- *certainty in value*, in the meaning that their value can be accurately determined at any time or at least once a month; and
- iv.- *low interest risk*, in the meaning of having a residual maturity of up to and including one year, or regular yield adjustments in line with money market conditions at least every twelve months; and
- v.- *low credit risk*, in the meaning that such instruments are either:
  - admitted to official listing on a stock exchange or dealt in on other regulated markets which operate regularly, are recognised and are open to the public; or
  - issued under regulations aimed at protecting investors and savings; or
  - issued by:
    - a central, regional or local authority, a central bank of a Member State, the European

Union, the European Central Bank, the European Investment Bank, a non-Member State or, if the latter is a federal state, by one of the members making up the federation, or by a public international body to which one or more Member States belong; or

- an establishment subject to prudential supervision, in accordance with criteria defined by Community law or by an establishment which is subject to and complies with prudential rules considered by the competent authorities as at least as stringent as those laid down by Community law, or guaranteed by any such establishment, or
- an undertaking the securities of which have been admitted to official listing on a stock exchange or are dealt in on other regulated markets which operate regularly, are recognised and are open to the public.

11. In the ESA 95, financial institutions classified as MFIs are categorised in two sub-sectors, namely central banks (S.121)<sup>2</sup> and other Monetary Financial Institutions (S.122).

## **2. The consolidated balance sheet on a monthly basis**

### **Objective**

12. The objective is to supply monthly data on the business of MFIs in sufficient detail to provide the ECB with a

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<sup>2</sup> This and subsequent references are to sectors and sub-sectors in the ESA 95.

comprehensive statistical picture of monetary developments in the euro area seen as one economic territory and to allow flexibility in the calculation of monetary aggregates and counterparts covering the euro area. Moreover, the monthly individual data reported by the credit institutions subject to the ESCB reserve requirements system are used for the calculation of the reserve base of the said credit institutions in accordance with the ECB Regulation on minimum reserves. The monthly reporting requirements are shown in Table I below. Cells with thin borders<sup>3</sup> are reported solely by credit institutions subject to reserve requirements (for full details, see Annex 4.2); this reporting is mandatory as from the data relating to end-December 1999, except for the reporting of “deposits redeemable at notice over two years” which remains voluntary until further notice. A detailed definition of instruments is presented in Part 3 of this Annex.

### Requirements

13. Money stock includes banknotes and coin in circulation and monetary liabilities (deposits and other financial instruments which are close substitutes for deposits) of MFIs. The counterparts to money comprise all other items in the MFI balance sheet. The ECB compiles these aggregates for the euro area as amounts outstanding (stocks) and as flows derived from them.

14. The ECB requires the statistical information in terms of MFIs' instrument/maturity categories, currencies and counterparties. As separate requirements apply to liabilities and assets, the two sides of the balance sheet are considered in turn. They are shown in Table A below.

### (i) Instrument and maturity categories

#### (a) Liabilities

15. The compilation of monetary aggregates for the euro area requires relevant instrument categories. These are currency in circulation; deposit liabilities;<sup>4</sup> liabilities of money market funds; debt securities issued; money market paper issued; capital & reserves; and remaining liabilities. In order to separate monetary and non-monetary liabilities, deposit liabilities are also broken down into overnight deposits, deposits with agreed maturity, deposits redeemable at notice and repurchase agreements (repos).

16. Maturity cut-offs were a feature of monetary statistics in several Member States and may also provide a substitute for instrument detail where financial instruments are not fully comparable between markets. The cut-off points for the maturity bands (or for periods of notice) are: for “deposits at agreed maturity”, at 1 year and 2 years' maturity at issue; and for “deposits redeemable at notice”, at 3 months' notice and, over 3 months, at 2 years' notice. Non-transferable sight deposits (“sight savings deposits”) are included in the “up to 3 months” band. Repos are not broken down by maturity as these are usually very short-term instruments (usually less than 3 months' maturity at issue). Debt securities issued by MFIs (excluding money market paper) are also broken down at 1 year and 2 years. No maturity breakdown is required for money market paper issued by MFIs or for units issued by money market funds.

<sup>3</sup> Credit institutions may report positions vis-à-vis “MFIs other than CIs subject to minimum reserves, ECB and NCBs” rather than vis-à-vis “MFIs” and “CIs subject to minimum reserves, ECB and NCBs”, provided that no loss of detail is implied.

<sup>4</sup> Balances outstanding on prepaid cards issued by MFIs are to be included in overnight deposits.

**(b) Assets**

17. MFI holdings are broken down into cash; loans; securities other than shares; money market paper; shares and other equities; fixed assets; and remaining assets. A maturity breakdown by maturity at issue is required for MFI holdings of debt securities issued by other MFIs located in the euro area. These holdings must be broken down into 1 and 2 years' maturity bands to enable the inter-MFI holdings of this instrument to be netted off and to permit the estimation by residual of non-MFI holdings which may be included in a monetary aggregate.

**(ii) Currencies**

18. The ECB must have the option of defining monetary aggregates in such a way as to include balances denominated in any currency or in euro alone. Balances in euro are therefore identified separately in the reporting scheme in respect of those balance-sheet items that may be used in the compilation of monetary aggregates.

**(iii) Counterparties**

19. The compilation of monetary aggregates and counterparts for the euro area requires the identification of those counterparties located in the area that form the money-holding sector. Counterparties located in the domestic territory and elsewhere in the euro area are identified separately and treated in exactly the same way in all statistical breakdowns. There is no geographical breakdown of counterparties located outside the euro area in monthly data.

20. Counterparties in the euro area are identified according to their domestic sector or institutional classification in accordance with the List of MFIs for statistical purposes and the guidance for the statistical

classification of customers provided in the Money and Banking Statistics Sector Manual ("Guidance for the statistical classification of customers"), which follows classification principles that are consistent with the ESA 95 as far as possible. In order to permit the identification of a money-holding sector, non-MFI counterparties are divided into general government, with central government identified separately in total deposit liabilities, and other residents. With respect to total deposits and the deposit categories "deposits over 2 years agreed maturity", "deposits redeemable at notice over 2 years" and "repos", an additional distinction is made between credit institutions, other MFI counterparties and central government for the purposes of the ESCB's minimum reserve system.

**(iv) Cross-relating instrument and maturity categories with currencies and counterparties**

21. The compilation of monetary statistics for the euro area and the data needed for the calculation of the reserve base of credit institutions subject to the ESCB's minimum reserve system necessitates certain cross-relationships between instrument/maturity/currency and counterparties being made in the balance sheet. These are most detailed where the counterparties are part of the potential money-holding sector. Breakdowns of the positions vis-à-vis other MFIs are identified only insofar as is necessary to allow the netting of inter-MFI balances or to calculate the reserve base. Positions vis-à-vis the Rest of the World are required only for "deposits over 2 years agreed maturity", "deposits redeemable at notice over 2 years" and "repos" (in order to calculate the reserve base subject to the positive reserve ratio) and for total deposits (in order to compile the external counterparts).

22. Some transitional features apply at the start of Stage Three of Monetary Union. First, in accordance with Community law, the national denominations of the euro will

continue to exist until the completion of the changeover to the euro and are likely to be represented in the balance sheets of reporting institutions. In order to be able to create “domestic” currency aggregates for the euro area, MFIs convert and add balances expressed in these national denominations to balances denominated in euro. (The combined totals are distinguished from balances denominated in all other currencies in monthly reporting.)

23. The second transitional feature is the subsequent participation of EU countries in the euro area after the start of Stage Three. MFIs take account of this by retaining the ability to break down by country positions with residents of the EU countries which remain outside the euro area after the start of Stage Three. It would, in principle, also be necessary to break down those balances on a currency-by-currency basis. To reduce the potentially heavy reporting burden, any back data covering the period before a change in the composition of the euro area is known may be produced with some scope for flexibility, subject to the approval of the ECB.

#### ***Timeliness***

24. The ECB receives an aggregated monthly balance sheet covering the positions of MFIs in each country participating in the euro area by the close of business on the fifteenth working day following the end of the month to which the data relate. National central banks decide when they need to receive data from reporting institutions in order to meet this deadline, taking account of the required timeliness for the ESCB's minimum reserve system.

### **3. Balance sheet statistics at quarterly frequency**

#### ***Objective***

25. Certain data requirements are not essential for the compilation of monetary aggregates for the euro area but will be

needed in Stage Three for the further analysis of monetary developments or to serve other statistical purposes such as financial accounts. The objective is to provide further detail on certain items of the balance sheet for these purposes.

#### ***Requirements***

26. The quarterly breakdowns are provided only in respect of key items of the aggregated balance sheet. (The main items are shown in bold in the left-hand column of Table 1.) Furthermore, the ECB may allow some flexibility in calculating aggregates where it can be shown from figures collected at a higher level of aggregation that the data involved are unlikely to be significant.

#### ***(a) Maturity breakdown of lending to non-MFIs in the euro area***

27. In order to enable the maturity structure of MFIs' overall credit financing (loans and securities) to be monitored, loans to non-MFIs are to be broken down quarterly at 1 year and 5 years' original maturity and holdings of securities issued by non-MFIs at 1 year original maturity.

#### ***(b) Sector breakdowns in the consolidated balance sheet***

28. The quarterly sector split of liability and asset positions vis-à-vis non-MFIs in the euro area is (where applicable) broken down into the general government sector (Central Government (S.1311), State Government (S.1312), Local Government (S.1313), Social Security Funds (S.1314)) and other resident sectors (other financial intermediaries (S.123), insurance corporations and pension funds (S.125), non-financial corporations (S.11), households and non-profit institutions serving households (S.14 and S.15 combined)). In order to identify the sub-sector components of the

monetary aggregates, it would, in theory, be necessary to combine the sub-sector breakdown with a detailed breakdown of deposit liabilities (by instrument, maturity and split between euro/other currencies). In view of the burden that would arise, the data requirement is limited to certain main balance sheet items (i.e. deposit liabilities to non-MFIs; loans to non-MFIs; and holdings of securities issued by non-MFIs).

**(c) Breakdown of loans to non-MFIs by activity of the borrower**

29. This breakdown of loans to non-MFIs located in the euro area is confined to the sub-sectors non-financial corporations and households and non-profit institutions serving households. It identifies loans to enterprises; to households (broken down into consumer credit, lending for house purchases and other lending (residual)); and to non-profit institutions serving households.

**(d) Country breakdown**

30. Counterparties inside and outside the euro area are identified, inter alia, for the purposes of the transitional requirements.

**(e) Currency breakdown**

31. Some breakdowns of MFIs' positions in the major non-EU currencies are required to permit the calculation of flows statistics for money and credit adjusted for exchange rate changes where these aggregates are defined in such a way as to include all currencies combined. The key balance sheet items only are broken down into the major international currencies (the US dollar, the Japanese yen and the Swiss franc).

**(f) Sector breakdowns of positions with counterparties outside the euro area (other EU Member States and the Rest of the World)**

32. For MFIs' positions vis-à-vis counterparties located outside the euro area, positions with banks (or MFIs in EU countries outside the area) and non-banks need to be distinguished; as regards non-banks, a distinction is needed between general government and other residents. The sector classification in accordance with the SNA93 applies where the ESA 95 is not in force.

**Timeliness**

33. Quarterly statistics are transmitted by national central banks to the ECB by close of business on the twenty-eighth working day following the end of the month to which they relate. National central banks decide when they need to receive data from reporting institutions in order to meet this deadline.

**4. Compilation of flows statistics**

**Objective**

34. From the consolidated balance sheet, which provides information on outstanding assets and liabilities and additional statistical information relating to valuation changes and certain other adjustments such as write-offs of loans, data on the value of transactions undertaken between reference dates need to be derived in a timely manner.

**Requirements**

35. The ECB must compile flows statistics for the monetary aggregates and counterparts measuring the financial transactions that occur during the calendar month. Financial transactions will be identified as the difference between stock

positions at end-month reporting dates and by removing the effect of changes in these differences that arise due to influences other than transactions. For this purpose, the ECB will require statistical information on these influences relating to almost all items of the MFI balance sheet. This information will take the form of adjustments that cover “reclassifications and other adjustments” and “revaluations and loan write-offs/write-downs”. In addition, the ECB will require explanatory information on the adjustments in “reclassifications and other adjustments”. Separate statistical information

for national central banks and other MFIs is required.

36. National central banks are required to submit data in a timely manner to the ECB in order to permit the compilation of flows statistics for the monetary aggregates and counterparts. The ECB calculates a standard adjustment for “exchange rate changes” using quarterly stocks data. A Manual of Procedures for the compilation of flows statistics specifies the way in which national central banks meet this requirement.

## PART 2 Required breakdowns

**Table A: SURVEY OF BREAKDOWNS FOR THE PURPOSES OF THE AGGREGATED BALANCE SHEET OF THE MFI SECTOR INSTRUMENT/MATURITY CATEGORIES, COUNTERPARTIES AND CURRENCIES**  
 (“Monthly data” breakdowns are indicated in bold with an \*)

INSTRUMENT AND MATURITY CATEGORIES	
ASSETS	LIABILITIES
<b>1 Cash *</b> <b>2 Loans *</b> up to 1 year <sup>1</sup> over 1 year & up to 5 years <sup>1</sup> over 5 years <sup>1</sup> <b>3 Securities other than shares <sup>2, 3, *</sup></b> <b>up to 1 year <sup>2, *</sup></b> <b>over 1 year &amp; up to 2 years <sup>2, *</sup></b> <b>over 2 years <sup>2, *</sup></b> <b>4 Money market paper <sup>4, *</sup></b> <b>5 Shares &amp; other equity *</b> <b>6 Fixed assets *</b> <b>7 Remaining assets *</b>	<b>8 Currency in circulation</b> <b>9 Deposits</b> <b>9.1 Overnight deposits <sup>5, *</sup></b> <b>9.2 Deposits with agreed maturity *</b> <b>up to 1 year *</b> <b>over 1 year &amp; up to 2 years *</b> <b>over 2 years <sup>6, *</sup></b> <b>9.3 Deposits redeemable at notice *</b> <b>up to 3 months <sup>7, *</sup></b> <b>over 3 months *</b> o/w over 2 years <sup>11, *</sup> <b>9.4 Repurchase agreements *</b> <b>10 Money market fund shares/units *</b> <b>11 Debt securities issued <sup>3, *</sup></b> <b>up to 1 year *</b> <b>over 1 year &amp; up to 2 years *</b> <b>over 2 years *</b> <b>12 Money market paper <sup>8, *</sup></b> <b>13 Capital &amp; reserves *</b> <b>14 Remaining liabilities *</b>
COUNTERPARTIES	
ASSETS	LIABILITIES
<b>A Domestic residents *</b> <b>Monetary Financial Institutions (MFIs) *</b> <b>Non-MFIs *</b> <b>General Government *</b> central government state government local government social security funds <b>Other residents *</b> other financial intermediaries (S.123) insurance corps. & pension fds. (S.125) non-financial corporations (S.11) households, etc. (S.14 + S.15) <sup>9</sup> <b>B Residents of the other MUMS <sup>10, *</sup></b> <b>MFIs *</b> <b>Non-MFIs *</b> <b>General Government *</b> central government state government local government social security funds <b>Other residents *</b> other financial intermediaries (S.123) insurance corps. & pension fds. (S.125) non-financial corporations (S.11) households, etc. (S.14 + S.15) <sup>9</sup> <b>C Residents of the Rest of the World *</b> Banks Non-banks General government Other residents <b>D Not allocated</b>	<b>A Domestic residents *</b> <b>MFIs*</b> <b>of which: credit institutions *</b> <b>Non-MFIs *</b> <b>General Government *</b> <b>central government *</b> state government local government social security funds <b>Other residents *</b> other financial intermediaries (S.123) insurance corps. & pension fds. (S.125) non-financial corporations (S.11) households, etc. (S.14 + S.15) <sup>9</sup> <b>B Residents of the other MUMS *</b> <b>MFIs *</b> <b>of which: credit institutions *</b> <b>Non-MFIs *</b> <b>General Government *</b> <b>central government *</b> state government local government social security funds <b>Other residents *</b> other financial intermediaries (S.123) insurance corps. & pension fds. (S.125) non-financial corporations (S.11) households, etc. (S.14 + S.15) <sup>9</sup> <b>C Residents of the Rest of the World *</b> Banks Non-banks General government Other residents <b>D Not allocated</b>
CURRENCIES	
<b>e Euro</b>	“euro denomination (including national currency denominations of the participating Member States prior to the completion of changeover to the euro)”
<b>x Non-MU currencies</b>	Other currencies (other EU currencies, USD, JPY, CHF, remaining)

<sup>1</sup> Maturity breakdown applicable only for loans to non-MFIs.

<sup>2</sup> Monthly data requirement relates only to holdings of securities issued by MFIs located in the euro area.

As quarterly data, holdings of securities issued by non-MFIs in the euro area are split into “up to 1 year” and “over 1 year”.

<sup>3</sup> Excluding money market paper.

<sup>4</sup> Defined as holdings of money market paper issued by MFIs. Here, money market paper includes shares/units issued by MMFs. Holdings of marketable instruments which may have the same characteristics as money market paper but which are issued by non-MFIs should be reported as “securities other than shares”.

<sup>5</sup> Including suspense balances representing amounts stored on prepaid cards issued in the name of MFIs.

<sup>6</sup> Including administratively regulated deposits.

<sup>7</sup> Including non-transferable sight deposits.

<sup>8</sup> Defined as money market paper issued by MFIs.

<sup>9</sup> Households (S.14) and non-profit institutions serving households (S.15).

<sup>10</sup> Monetary Union Member States, meaning the territory of the participating Member States.

<sup>11</sup> The reporting of the item “deposits redeemable at notice over 2 years” is voluntary until further notice.

**TABLE I DATA REQUIRED TO BE PROVIDED AT MONTHLY FREQUENCY**

Cells in thin print are reported solely by credit institutions subject to reserve requirements

	A. Domestic					B. Other MUMS					C. RoW	D. Not allocated
	MFIs (5)		Non-MFIs			MFIs (5)						
	of which Cls subject to RR, ECB and NCBs	Central Gov't	Other Gen. Gov't	Other Residents	of which Cls subject to RR, ECB and NCBs	Central Gov't	Other Gen. Gov't	Other Residents				
<b>LIABILITIES</b>												
<b>8</b>	<b>Currency in circulation</b>											
<b>9</b>	<b>Deposits (all currencies)</b>											
<b>9e</b>	<b>Euro</b>											
<b>9.1e</b>	<b>Overnight</b>											
<b>9.2e</b>	<b>With agreed maturity</b>											
	up to 1 year											
	over 1 & up to 2 years											
	over 2 years (1)											
<b>9.3e</b>	<b>Redeemable at notice</b>											
	up to 3 months (2)											
	over 3 months											
	o/w over 2 years (6)											
<b>9.4e</b>	<b>Repos</b>											
<b>9x</b>	<b>Non-MU currencies</b>											
<b>9.1x</b>	<b>Overnight</b>											
<b>9.2x</b>	<b>With agreed maturity</b>											
	up to 1 year											
	over 1 & up to 2 years											
	over 2 years (1)											
<b>9.3x</b>	<b>Redeemable at notice</b>											
	up to 3 months (2)											
	over 3 months											
	o/w over 2 years (6)											
<b>9.4x</b>	<b>Repos</b>											
<b>10</b>	<b>Money market fund shares/units</b>											
<b>11</b>	<b>Debt securities issued</b>											
<b>11e</b>	<b>Euro</b>											
	up to 1 year											*
	over 1 & up to 2 years											*
	over 2 years											*
<b>11x</b>	<b>Non-MU currencies</b>											
	up to 1 year											*
	over 1 & up to 2 years											*
	over 2 years											*
<b>12</b>	<b>Money market paper (3)</b>											
	Euro											*
	Non-MU currencies											*
<b>13</b>	<b>Capital &amp; reserves</b>											
<b>14</b>	<b>Remaining liabilities</b>											
<b>ASSETS</b>												
<b>1</b>	<b>Cash (all currencies)</b>											
	1e o/w euro											
<b>2</b>	<b>Loans</b>											
	2e o/w euro											
<b>3</b>	<b>Securities other than shares</b>											
<b>3e</b>	<b>Euro</b>											
	up to 1 year											
	over 1 & up to 2 years											
	over 2 years											
<b>3x</b>	<b>Non-MU currencies</b>											
	up to 1 year											
	over 1 & up to 2 years											
	over 2 years											
<b>4</b>	<b>Money market paper (4)</b>											
	Euro											
	Non-MU currencies											
<b>5</b>	<b>Shares &amp; other equity</b>											
<b>6</b>	<b>Fixed assets</b>											
<b>7</b>	<b>Remaining assets</b>											

**General note:** Cells marked with an \* are used in the calculation of the reserve base. With respect to debt securities and money market paper, CIs will either present proof of liabilities to be excluded from the reserve base or apply a standardised deduction of a fixed percentage specified by the ECB.

(1) Including administratively regulated deposits.

(2) Including non-transferable sight savings deposits.

(3) Defined as money market paper issued by MFIs.

(4) Defined as holdings of money market paper (MMP) issued by MFIs. Here, money market paper includes shares/units issued by MMFs. Holdings of marketable instruments which may have the same characteristics as MMP but are issued by non-MFIs should be reported as "securities other than shares".

(5) Credit institutions may report positions vis-à-vis "MFIs other than CIs subject to minimum reserves, ECB and NCBs" rather than vis-à-vis "MFIs" and "CIs subject to minimum reserves, ECB and NCBs", provided that no loss of detail is implied.

(6) The reporting of this item is voluntary until further notice.

**TABLE 2 SECTOR BREAKDOWN (“Quarterly data”)** Data to be provided at quarterly frequency

	A. Domestic										B. Other MUMS										C. RoW				
	Non-MFIs					General Government					Non-MFIs					General Government					Total				
	Central Gov't		Other General Government			Other Residents		Total			Central Gov't		Other General Government			Other Residents		Total			Banks	Non-banks			
	State Gov't	Local Auth. orities	Social Sec. Funds	Insur. funds	Non-pension funds	Households, etc.	(S.123)	(S.125)	(S.11)	(3)	State Gov't	Local Sec. Funds	Social Sec. Funds	OFIs	Insur. & Pension fin. corps	Households, etc.	(S.123)	(S.125)	(S.11)	(3)		Gen. Gov't	Other Residents		
<b>LIABILITIES</b>																									
<b>8 Currency in circulation</b>																									
<b>9 Deposits (all currencies)</b>																									
<b>9.1 Overnight</b>																									
<b>9.2 With agreed maturity (1)</b>																									
<b>9.3 Redeemable at notice (2)</b>																									
<b>9.4 Repos</b>																									
<b>10 Money market fund shares/units</b>																									
<b>11 Debt securities issued</b>																									
<b>12 Money market paper</b>																									
<b>13 Capital &amp; reserves</b>																									
<b>14 Remaining liabilities</b>																									
<b>ASSETS</b>																									
<b>1 Cash</b>																									
<b>2 Loans</b>																									
up to 1 year																									
over 1 year & up to 5 years																									
over 5 years																									
<b>3 Securities other than shares</b>																									
up to 1 year																									
over 1 year																									
<b>4 Money market paper</b>																									
<b>5 Shares &amp; other equity</b>																									
<b>6 Fixed assets</b>																									
<b>7 Remaining assets</b>																									

(1) Including administratively regulated deposits. (2) Including non-transferable sight deposits. (3) Comprises households (S. 14) and non-profit institutions serving households (S. 15).



**TABLE 4 COUNTRY BREAKDOWN (“Quarterly data”)**

Data to be provided at quarterly frequency

	B + part of C											Other MJMS (ie. excluding domestic sector) and other EU countries (2)		Part of C Rest of the world (ie. excl. EU)				
	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	Total (3)		
<b>LIABILITIES</b>																		
<b>8 Currency in circulation</b>																		
<b>9 Deposits (all currencies)</b>																		
a. MFIs																		
b. non-MFIs																		
<b>10 Money market fund shares/units</b>																		
<b>11 Debt securities issued</b>																		
<b>12 Monex market paper</b>																		
<b>13 Capital &amp; reserves</b>																		
<b>14 Remaining liabilities</b>																		
<b>ASSETS</b>																		
<b>1 Cash</b>																		
<b>2 Loans (all currencies)</b>																		
a. to MFIs																		
b. to non-MFIs																		
<b>3 Securities other than shares (all currencies)</b>																		
a. issued by MFIs																		
b. issued by non-MFIs																		
<b>4 Money market paper (1)</b>																		
a. issued by MFIs																		
<b>5 Shares &amp; other equity</b>																		
<b>6 Fixed assets</b>																		
<b>7 Remaining assets</b>																		

(1) Defined as holdings of money market paper issued by MFIs. Here, money market paper includes shares/units issued by MMFs.

(2) For the calculation of the consolidated balance sheet aggregates, a differentiation of the country of residence of MFI counterparties by each potential participating Member State would be required.

(3) An individual country breakdown of the “Rest of the World” (excluding EU countries) may be of interest, but is considered to be beyond the scope of this exercise.

**TABLE 5 CURRENCY BREAKDOWN (“Quarterly data”)**

Data to be provided at quarterly frequency

		All currencies combined	Euro & MU national currencies (3)	Other EU currencies (3)	Other currencies				remaining currencies combined
					Total	USD	JPY	CHF	
<b>LIABILITIES</b>									
<b>9 Deposits</b>									
<b>A Domestic</b>		a. MFIs	M						
		b. non-MFIs	M						
<b>B Other MUMS</b>		a. MFIs	M						
		b. non-MFIs	M						
<b>C Rest of the World</b>		a. banks		(4)					
		b. non-banks		(4)					
<b>10 Money market fund shares/units</b>									
<b>11 Debt securities issued</b>									
			M	M					
<b>12 Money market paper (1)</b>									
			M	M					
<b>13+14 Remaining liabilities</b>			M						
<b>ASSETS</b>									
<b>2 Loans</b>									
<b>A Domestic</b>		a. to MFIs	M						
		b. to non-MFIs	M	M					
<b>B Other MUMS</b>		a. to MFIs	M						
		b. to non-MFIs	M	M					
<b>C Rest of the World</b>		a. to banks		(4)					
		b. to non-banks		(4)					
<b>3 Securities other than shares</b>									
<b>A Domestic</b>		a. issued by MFIs	M	M					
		b. issued by non-MFIs	M	M					
<b>B Other MUMS</b>		a. issued by MFIs	M	M					
		b. issued by non-MFIs	M	M					
<b>C Rest of the World</b>		a. issued by banks		(4)					
		b. issued by non-banks		(4)					
<b>4 Money market paper (2)</b>									
<b>A Domestic</b>		a. issued by MFIs	M	M					
<b>B Other MUMS</b>		a. issued by MFIs	M	M					
<b>5+6+7 Remaining assets</b>			M						

M “Monthly data” requirements, see Table 1.

- (1) Defined as money market paper issued by MFIs.
- (2) Defined as holdings of money market paper issued by MFIs. Here, money market paper includes shares/units issued by MMFs. Holdings of marketable instruments which may have the same characteristics as money market paper but are issued by non-MFIs should be reported as “securities other than shares”.
- (3) For the calculation of the consolidated balance sheet aggregates, a differentiation of the currency denomination of MFI accounts by each potential MUMS currency would be required.
- (4) Data in respect of these items should be supplied for quality control purposes. As these items are not included in the official Implementation Package tables, it is expected that data will only be provided where already collected from MFI reporting agents.

## **PART 3**

### **Definitions relating to the consolidated balance sheet to be submitted to the ECB; instrument categories of liabilities and assets**

#### **General definitions**

Residence is defined as in the Council Regulation (EC) concerning the collection of statistical information by the European Central Bank.

For purpose of compiling the consolidated balance sheet of the Monetary Financial Institutions (MFI) sector for the euro area, the reporting population consists of MFIs listed in the List of Monetary Financial Institutions for statistical purposes and resident in the territory of the participating Member States. These are:

- institutions incorporated and located in the territory, including subsidiaries of parent companies located outside that territory; and
- branches of institutions that have their head office outside that territory.

Subsidiaries are separated incorporated entities in which another entity has a majority or full participation, whereas branches are unincorporated entities (without independent legal status) totally owned by the parent.

MFIs consolidate for statistical purposes the business of all their offices (head office and/or branches) located within the same national territory. Furthermore, head offices are permitted to consolidate in their statistical returns the business of any subsidiaries that are MFIs located in the national territory but keeping the business of credit institutions and other MFIs separate, for the purposes of the minimum reserve system of the European System of Central Banks (ESCB). No consolidation is permitted across national boundaries for the purposes of statistical returns.

Institutions located in offshore financial centres are treated statistically as residents of the territories in which they are located.

Maturity at issue (original maturity) refers to the fixed period of life of a financial instrument before which it cannot be redeemed (e.g. debt securities) or before which it can be redeemed only with some kind of penalty (e.g. some types of deposits). The period of notice corresponds to the time between the moment the holder gives notice of intention to redeem the instrument and the date on which the holder is allowed to convert it into cash without incurring a penalty. Financial instruments are classified according to the period of notice only when there is not an agreed maturity.

Accounting rules followed by MFIs in drawing up their accounts comply with the national transposition of the EU Bank Accounts Directive (BAD) (86/635/EEC).

#### **Definitions of sectors**

The European System of Accounts (the ESA 95) provides the standard for sector classification. For the sector classification of non-MFI counterparties located outside the domestic territory, further guidance may be found in the Money and Banking Statistics Sector Manual.

The definition of MFIs was discussed above. Banking institutions located outside the euro area are referred to as “banks” rather than as MFIs, because the term “MFI” applies only in the euro area. Similarly, the term “non-MFI” applies only to the euro area; for other countries the term “non-banks” is appropriate. “Non-MFIs” comprise the following sectors and sub-sectors:

- *General Government.* Resident units which are principally engaged in the production of non-market goods and services, intended for individual and collective consumption and/or in the redistribution of national income and wealth (the ESA 95, paragraphs 2.68. - 2.70.).
- *Central Government.* Administrative departments of the State and other central agencies whose competence extends over the whole economic territory, except for the administration of social security funds (the ESA 95, paragraph 2.71.).
- *State Government.* Separate institutional units exercising some of the functions of government at a level below that of central government and above that of local government, except for the administration of social security funds (the ESA 95, paragraph 2.72.).
- *Local Authorities.* Public administration whose competence extends only to a local part of the economic territory, excluding local agencies of social security funds (the ESA 95, paragraph 2.73.).
- *Social security funds.* Central, state and local institutional units whose principal activity is to provide social benefits (the ESA 95, paragraph 2.74.).
- *Insurance corporations and pension funds.* Non-monetary financial corporations and quasi-corporations principally engaged in financial intermediation as the consequence of the pooling of risks (the ESA 95, paragraphs 2.60. - 2.67.).
- *Non-financial corporations.* Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services (the ESA 95, paragraphs 2.21. - 2.31.).
- *Households.* Individuals or groups of individuals as consumers, and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Included are non-profit institutions which serve households and which are principally engaged in the production of non-market goods and services intended for particular groups of households (the ESA 95, paragraphs 2.75. - 2.88.).

Other residents. Resident non-MFIs other than the General Government. These comprise:

- *Other financial intermediaries.* Non-monetary financial corporations and quasi-corporations (excluding insurance corporations and pension funds) principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs (the ESA 95, paragraphs 2.53. - 2.67.).

### **Definitions of instrument categories**

Definitions of the categories of assets and liabilities included in the consolidated balance sheet take account of the features of different financial systems. Maturity analyses may provide a substitute for consistency in instrument definition where instruments are not fully comparable between financial markets.

The following tables provide a detailed standard description of the instrument categories which national central banks transpose into categories applicable at the national level in accordance with the ECB Regulation.

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

<b>ASSET CATEGORIES</b>	
<b>IP category</b>	<b>Description of main features (IP terminology)</b>
1. Cash	Holdings of domestic and foreign banknotes and coin in circulation that are commonly used to make payments.
2. Loans	For the purposes of the reporting scheme, this consists of funds lent by reporting MFIs to borrowers, which are not evidenced by negotiable documents or are represented by a single document (even if it has become negotiable). It includes deposits placed with other MFIs. * Loans granted to households in the form of consumer credit (loans granted for the purpose of personal use in the consumption of goods and services), lending for house purchases (credit extended for the purpose of investing in housing, including building and home improvements) and other (loans granted for purposes such as business, debt consolidation, education, etc.). * Deposits placed with other MFIs. * Financial leases granted to third parties. * Bad debt loans that have not yet been repaid or written off. * Holdings of non-marketable securities. * Subordinated debt in the form of deposits or loans.
3. Securities other than shares	Holdings of securities other than shares, other equity or money market paper, which are usually negotiable and traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution. This item includes securities (except those negotiated on money markets – see item 4) which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specific date (or dates) or starting from a date defined at the time of issue. It also includes negotiable loans that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.
3./a. Securities other than shares of up to and including 1 year original maturity	* Holdings of marketable debt securities (evidenced or not by documents) of original maturity of up to 1 year but which are not traded on money markets (see item 4). * Negotiable loans of original maturity of up to 1 year that are restructured into a large number of identical documents and that are traded on organised (secondary) markets. * Subordinated debt in the form of debt securities and deposits or loans of original maturity of up to and including 1 year.
3./b. Securities other than shares of over 1 year and up to and including 2 years' original maturity	* Holdings of marketable debt securities (evidenced or not by documents) of original maturity of between 1 and 2 years but which are not traded on money markets (see item 4). * Negotiable loans of over 1 year and up to and including 2 years' original maturity that are restructured into a large number of identical documents and that are traded on organised (secondary) markets. * Subordinated debt in the form of debt securities and deposits or loans of original maturity of between 1 and 2 years.
3./c. Securities other than shares of over 2 years' agreed maturity	* Marketable debt securities (evidenced or not by documents) of original maturity over 2 years but which are not traded on money markets (see item 4). * Negotiable loans of over 2 years' original maturity that are restructured into a large number of identical documents and that are traded on organised (secondary) markets. * Subordinated debt in the form of debt securities and deposits or loans of original maturity over 2 years.

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

<b>ASSET CATEGORIES</b>	
<b>IP category</b>	<b>Description of main features (IP terminology)</b>
4. Money market paper	This consists of holdings of marketable instruments, issued by MFIs, that have a high degree of liquidity because they are traded on liquid money markets (i.e. markets with a high turnover and sizeable amounts of financial instruments, that provide immediate and low cost convertibility of such instruments into cash and have low default and interest rate risks), in which the participants are mainly MFIs and other financial institutions. Further guidance on the definition of money market paper and on the country-by-country classification may be found in the ECB booklet entitled "Money Market Paper – Guidance to ensure consistency in classification across the MU". This asset item also includes holdings of shares/units issued by MMFs (see item 10).
5. Shares and other equity	Holdings of securities which represent property rights on corporations or quasi-corporations. These securities generally entitle the holders to a share in the profits of corporations or quasi-corporations and to a share in their own funds in the event of liquidation.
6. Fixed assets	For the purposes of the reporting scheme, this consists of non-financial assets, tangible or intangible, which are intended to be used repeatedly for more than 1 year by reporting MFIs. They include land and buildings occupied by the MFIs, as well as equipment, software and other infrastructures.
7. Remaining assets	Assets not included elsewhere. <ul style="list-style-type: none"> <li>* Financial derivative positions with gross positive market values.</li> <li>* Gross amounts receivable in respect of suspense items.</li> <li>* Gross amounts receivable in respect of transit items.</li> <li>* Accrued interest receivable on loans.</li> <li>* Dividends to be received.</li> <li>* Amounts receivable not related to the main MFI business.</li> <li>* Asset counterpart to coin issued by the State (NCBs' balance sheets only).</li> </ul>

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

<b>LIABILITY CATEGORIES</b>	
<b>IP category</b>	<b>Description of main features (IP terminology)</b>
8. Currency in circulation	Banknotes and coin in circulation that are commonly used to make payments. * Banknotes issued by the NCBs. * Banknotes issued by other MFIs. * Coin issued by the NCBs. * Coin issued by the Central Government.
9. Deposits	Amounts owed to creditors by reporting MFIs, other than those arising from issuing negotiable securities. For the purposes of the reporting scheme, this category is broken down into overnight deposits, deposits with agreed maturity, deposits redeemable at notice and repurchase agreements.
9.1. Overnight deposits	Deposits which are convertible into currency and/or which are transferable on demand by cheque, banker's order, debit entry or similar means, without significant delay, restriction or penalty. Balances outstanding on prepaid cards issued by MFIs are included under this item. This item excludes non-transferable deposits which are withdrawable on demand but which are subject to significant penalties. * Balances (interest bearing or not) which are immediately convertible into currency on demand, without any significant penalty or restriction, but which are not transferable. * Balances (interest bearing or not) which are immediately convertible into currency by close of business on the day following that on which the deposit was made, without any significant penalty or restriction, but which are not transferable. * Balances (interest bearing or not) which are transferable by cheque, banker's order, debit entry or the like, without any significant penalty or restriction. * Balances (interest bearing or not) outstanding on prepaid cards. * Non-negotiable loans, to be repaid by close of business on the day following that on which the loan was granted. * Gross amounts payable in respect of suspense items that are closely associated with "overnight deposits".

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

<b>LIABILITY CATEGORIES</b>	
<b>IP category</b>	<b>Description of main features (IP terminology)</b>
9.2. Deposits with agreed maturity	Non-transferable deposits which cannot be converted into currency before an agreed fixed term or that can only be converted into currency before that agreed term provided that the holder is charged some kind of penalty. This item also includes administratively regulated savings deposits where the maturity related criterion is not relevant (classified in the maturity band "over 2 years").
9.2./a. Deposits of up to and including 1 year agreed maturity	<ul style="list-style-type: none"> <li>* Balances placed with a fixed term to maturity of no more than 1 year that are non-transferable and cannot be converted into currency before that maturity.</li> <li>* Balances placed with a fixed term to maturity of no more than 1 year that are non-transferable but can be redeemed before that term after prior notification.</li> <li>* Balances placed with a fixed term to maturity of no more than 1 year that are non-transferable but can be redeemed on demand subject to certain penalties.</li> <li>* Margin payments made under derivative contracts to be closed out within 1 year, representing cash collateral placed to protect against credit risk but remaining in the ownership of the depositor and being repayable to the depositor when the contract is closed out.</li> <li>* Non-negotiable loans and negotiable loans evidenced by a single document of up to and including 1 year original maturity.</li> <li>* Non-marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of up to and including 1 year.</li> <li>* Subordinated debt issued by MFIs in the form of deposits or loans of original maturity of up to and including 1 year.</li> <li>* Gross amounts payable in respect of suspense items that are closely associated with "deposits up to and including 1 year agreed maturity".</li> </ul>
9.2./b. Deposits of over 1 year and up to and including 2 years' agreed maturity	<ul style="list-style-type: none"> <li>* Balances placed with a fixed term to maturity of between 1 and 2 years that are non-transferable and cannot be converted into currency before that maturity.</li> <li>* Balances placed with a fixed term to maturity of between 1 and 2 years that are non-transferable but can be redeemed before that term after prior notification.</li> <li>* Balances placed with a fixed term to maturity of between 1 and 2 years that are non-transferable but can be redeemed on demand subject to certain penalties.</li> <li>* Margin payments made under derivative contracts to be closed out within between 1 and 2 years, representing cash collateral placed to protect against credit risk but remaining in the ownership of the depositor and being repayable to the depositor when the contract is closed out.</li> <li>* Non-negotiable loans and negotiable loans evidenced by a single document of between 1 and 2 years' original maturity.</li> <li>* Non-marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of between 1 and 2 years.</li> <li>* Subordinated debt issued by MFIs in the form of deposits or loans of original maturity of between 1 and 2 years.</li> <li>* Gross amounts payable in respect of suspense items that are closely associated with "deposits over 1 year and up to and including 2 years' agreed maturity".</li> </ul>

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

**LIABILITY CATEGORIES**

<b>IP category</b>	<b>Description of main features (IP terminology)</b>
<p>9.2./c. Deposits of over 2 years' agreed maturity</p>	<ul style="list-style-type: none"> <li>* Balances placed with a fixed term to maturity of more than 2 years that are non-transferable and cannot be converted into currency before that maturity.</li> <li>* Balances placed with a fixed term to maturity of more than 2 years that are non-transferable but can be redeemed before that term after prior notification.</li> <li>* Balances placed with a fixed term to maturity of more than 2 years that are non-transferable but can be redeemed on demand subject to certain penalties.</li> <li>* Balances (regardless of maturity) in which the interest rates and/or terms and conditions are specified in national legislation and which are designed to be held for specific purposes (e.g. house financing) occurring beyond the 2 years' time horizon (even if technically they are redeemable on demand).</li> <li>* Margin payments made under derivative contracts to be closed out in more than 2 years, representing cash collateral placed to protect against credit risk but remaining in the ownership of the depositor and being repayable to the depositor when the contract is closed out.</li> <li>* Non-negotiable loans and negotiable loans evidenced by a single document of more than 2 years' original maturity.</li> <li>* Non-marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of more than 2 years.</li> <li>* Subordinated debt issued by MFIs in the form of deposits or loans of original maturity of more than 2 years.</li> <li>* Gross amounts payable in respect of suspense items that are closely associated with "deposits over 2 years' agreed maturity".</li> </ul>
<p>9.3. Deposits redeemable at notice</p>	<p>Non-transferable deposits without any agreed maturity which cannot be converted into currency without a period of prior notice, before the term of which the conversion into cash is not possible or possible only with a penalty. It includes deposits which, although perhaps legally withdrawable on demand, would be subject to significant penalties and restrictions according to national practice (classified in the maturity band "up to and including 3 months"), and investment accounts without period of notice or agreed maturity, but which contain restrictive drawing provisions (classified in the maturity band "over 3 months").</p>
<p>9.3./a. Deposits redeemable at up to and including 3 months' notice</p>	<ul style="list-style-type: none"> <li>* Balances placed without a fixed maturity that can be withdrawn only subject to a pre-announcement of up to and including 3 months; if redemption prior to that notice period (or even on demand) is possible, it involves the payment of a penalty.</li> <li>* Non-transferable sight savings deposits and other types of retail deposits which, although legally redeemable on demand, are subject to significant penalties.</li> <li>* Balances placed with a fixed term to maturity that are non-transferable but that have been subject to a notification of less than 3 months for an earlier redemption.</li> <li>* Gross amounts payable in respect of suspense items that are closely associated with the deposits to which they relate.</li> </ul>
<p>9.3./b. Deposits redeemable at over 3 months notice o/w over 2 years' notice (where applicable)</p>	<ul style="list-style-type: none"> <li>* Balances placed without a fixed maturity that can be withdrawn only subject to a pre-announcement of more than 3 months; if redemption prior to that notice period (or even on demand) is possible, it involves the payment of a penalty.</li> <li>* Investment accounts without a period of notice or agreed maturity, but which contain restrictive drawing provisions.</li> <li>* Balances placed with a fixed term to maturity, that are non-transferable but have been subject to a notification of more than 3 months for an earlier redemption.</li> <li>* Gross amounts payable in respect of suspense items that are closely associated with the deposits to which they relate.</li> </ul>

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

<b>LIABILITY CATEGORIES</b>	
<b>IP category</b>	<b>Description of main features (IP terminology)</b>
9.4. Repos	<p>Counterpart of cash received in exchange for securities sold by reporting MFIs at a given price under a commitment to repurchase the same (or similar securities) at a fixed price on a specified future date.</p> <ul style="list-style-type: none"> <li>* Amounts received in exchange for securities temporarily transferred to a third party in the form of a repurchase agreement.</li> <li>* Amounts received in exchange for securities temporarily transferred to a third party in the form of bond lending (against cash collateral).</li> <li>* Amounts received in exchange for securities temporarily transferred to a third party in the form of a sale/buy-back agreement.</li> </ul>
10. MMF shares/units	<p>Shares or units issued by MMFs. MMFs are collective investments the shares/units of which are, in terms of liquidity, close substitutes for deposits, and which primarily invest in money market instruments and/or in other tradable debt securities with a residual maturity of up to 1 year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments.</p>
11. Debt securities issued	<p>Securities other than equity or money market paper issued by reporting MFIs, which are instruments usually negotiable and traded on secondary markets or which can be offset on the market and which do not grant the holder any ownership rights over the issuing institution. This item includes securities (except those negotiated on money markets – see item 12) which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specific date (or dates) or starting from a date defined at the time of issue. It also includes negotiable loans that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.</p>
11./a. Debt securities of up to and including 1 year original maturity	<ul style="list-style-type: none"> <li>* Marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of up to 1 year but which are not traded on money markets (see item 12).</li> <li>* Negotiable loans of original maturity of up to 1 year that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.</li> <li>* Subordinated debt issued by MFIs in the form of debt securities and deposits or loans of original maturity of up to and including 1 year.</li> </ul>
11./b. Debt securities of over 1 year and up to and including 2 years' original maturity	<ul style="list-style-type: none"> <li>* Marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of between 1 and 2 years but which are not traded on money markets (see item 12).</li> <li>* Negotiable loans of over 1 year and up to and including 2 years' original maturity that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.</li> <li>* Subordinated debt issued by MFIs in the form of debt securities and deposits or loans of original maturity of between 1 and 2 years.</li> </ul>
11./c. Debt securities of over 2 years' original maturity	<ul style="list-style-type: none"> <li>* Marketable debt securities issued by MFIs (evidenced or not by documents) of original maturity of over 2 years' but which are not traded on money markets (see item 12).</li> <li>* Negotiable loans of over 2 years' original maturity that are restructured into a large number of identical documents and that are traded on organised (secondary) markets.</li> <li>* Subordinated debt issued by MFIs in the form of debt securities and deposits or loans of original maturity of over 2 years.</li> </ul>

**Detailed description of instrument categories of the monthly aggregated balance sheet of the MFI sector under the Implementation Package framework**

**LIABILITY CATEGORIES**

**IP category                      Description of main features (IP terminology)**

12. Money market paper	This consists of marketable instruments, issued by MFIs, that have a high degree of liquidity because they are traded on liquid money markets (i.e. markets with high turnover and sizable amounts of financial instruments, that provide immediate and low cost convertibility of such instruments into cash and have low default and interest rate risks), in which the participants are mainly MFIs and other financial institutions. Further guidance on the definition of money market paper and on the country-by-country classification may be found in the booklet entitled "Money Market Paper – Guidance to ensure consistency in classification across the MU".
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13. Capital & reserves	<p>For the purposes of the reporting scheme, this category comprises the amounts arising from the issue of equity capital by reporting MFIs to shareholders or other proprietors, representing for the holder property rights in the MFI and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Funds arising from non-distributed benefits or funds set aside by reporting MFIs in anticipation of likely future payments and obligations are also included.</p> <ul style="list-style-type: none"> <li>* Equity capital.</li> <li>* Non-distributed benefits or funds.</li> <li>* Specific provisions against loans, securities and other types of assets.</li> <li>* Counterpart entry representing unrealised losses arising from financial derivative positions with gross negative market values.</li> </ul>
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14. Remaining liabilities	<p>Liabilities not included elsewhere.</p> <ul style="list-style-type: none"> <li>* Financial derivative positions with gross negative market values.</li> <li>* Gross amounts payable in respect of suspense items.</li> <li>* Gross amounts payable in respect of transit items.</li> <li>* Accrued interest payable on deposits.</li> <li>* Dividends to be paid.</li> <li>* Amounts payable not related to the main MFI business.</li> <li>* Provisions representing liabilities against third parties.</li> <li>* Margin payments made under derivative contracts, representing cash collateral placed to protect against credit risk but remaining in the ownership of the depositor and being repayable to the depositor when the contract is closed out.</li> <li>* Net positions arising from securities lending without cash collateral.</li> <li>* Net amounts payable in respect of future settlements of transactions in securities.</li> </ul>
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# Annex 4.2

## **Specific and transitional provisions for the application of the minimum reserve system**

### **PART I Specific provisions**

#### **I. Reporting scheme for credit institutions in the “tail”**

1. Small credit institutions report, as a minimum, information for the purposes of the minimum reserve system of the European System of Central Banks (ESCB) in accordance with Table IA. The “tail” institutions’ reserve base data for three (one-month) reserve maintenance periods is based on end-of-quarter data collected by the national central banks (NCBs) with a deadline of twenty-eight working days.

#### **II. Reporting on a consolidated basis as a group by credit institutions subject to the ESCB minimum reserve system**

2. On receiving authorisation from the European Central Bank (ECB), credit institutions subject to minimum reserves may carry out consolidated statistical reporting for a group of credit institutions subject to minimum reserves within a single national territory, provided that all the institutions concerned have renounced the benefit of any lump-sum allowance from the reserve requirement. The benefit of the lump-sum allowance remains, however, for the group as a whole. All the institutions concerned are included separately in the ECB’s List of Monetary Financial Institutions (MFIs).

3. If the group as a whole falls under the “tail”, it is only required to comply with the simplified reporting for “tail” institutions. Otherwise, the reporting scheme for full reporters applies.

#### **III. The column “o/w CIs subject to reserve requirements, ECB and NCBs”**

4. The column “o/w CIs subject to reserve requirements, ECB and NCBs” does not include the liabilities of reporting institutions vis-à-vis institutions listed as exempt from the ESCB’s minimum reserve system, i.e. institutions which are exempt for reasons other than their being subject to reorganisation measures.

5. The list of exempt institutions contains only those institutions which are exempt for reasons other than their being subject to reorganisation measures. Institutions which are temporarily exempt from minimum reserve requirements due to their being subject to reorganisation measures are treated as institutions subject to minimum reserve requirements and, therefore, liabilities vis-à-vis these institutions are covered under the column “o/w CIs subject to reserve requirements, ECB and NCBs”. Liabilities vis-à-vis institutions not actually required to maintain reserve holdings with the ESCB due to the application of the lump-sum allowance are also covered under this column.

### **PART 2 Transitional provisions**

#### **I. Credit institutions as full reporters**

6. In order to make a correct calculation of the reserve base to which a positive reserve ratio is applied, a detailed monthly breakdown is required of deposits with an agreed maturity over 2 years, of deposits redeemable at notice over 2 years and of repo liabilities of credit institutions vis-à-vis

the (“domestic” and “other MUMS”) “MFIs”, “CIs subject to minimum reserves, ECB and NCBs” and “Central Government” sectors, and vis-à-vis the Rest of the World (RoW). Credit institutions may also report positions vis-à-vis “MFIs other than CIs subject to minimum reserves, ECB and NCBs”, rather than vis-à-vis “MFIs” and “CIs subject to minimum reserves, ECB and NCBs”, provided that no loss of detail is implied.

7. The reporting of this information will be mandatory as from the data relating to end-December 1999 (except in the case of deposits redeemable at notice over 2 years, where reporting remains voluntary until further notice). Up to this date, reporting institutions will have the option to meet these requirements by means of voluntary reporting, i.e. they will be allowed to report either true figures (including nil positions) or “missing information” (using the appropriate symbol) for an interim period of one year, starting on 1 January 1999.

8. Reporting institutions must choose whether they wish to report true figures or “missing information” during the interim period. Once the choice to report true figures has been made, they will no longer be able to report “missing information”.

9. Credit institutions are required to calculate the reserve base for the first maintenance period in Stage Three on the basis of the opening balance sheet on 1 January 1999.

## **II. Credit institutions in the “tail”**

10. Credit institutions in the “tail” are also required to calculate the reserve base for the first maintenance period in Stage Three on the basis of the opening balance sheet on 1 January 1999, but with a reporting deadline of 10 February 1999.

11. In order to make a correct calculation of the reserve base to which a positive reserve ratio shall be applied, a detailed quarterly breakdown is required of deposits with an agreed maturity over 2 years, of deposits redeemable at notice over 2 years and of repo liabilities of credit institutions vis-à-vis the (“domestic” and “other MUMS”) “MFIs” and “CIs subject to minimum reserves, ECB and NCBs” sectors and vis-à-vis the RoW.

12. The reporting of this information will be mandatory as from the data relating to end-December 1999 (except in the case of deposits redeemable at notice over 2 years, where reporting remains voluntary until further notice). Up to this date, reporting institutions will have the option to meet these requirements by means of voluntary reporting, i.e. they will be allowed to report either true figures or “missing information” during an interim period of one year, starting on 1 January 1999.

13. Reporting institutions must choose whether they wish to report true figures or “missing information” during the interim period. Once the choice to report true figures has been made, they will no longer be able to report “missing information”.

**TABLE IA: Data required from small CIs to be provided at quarterly frequency for minimum reserve requirements**

	A. Domestic					B. Other MUMS					C. RoW	D. Not allocated	A+B MUMS resident non-MFI
	MFIs		Non-MFIs			MFIs		Non-MFIs					
		of which CIs subject to RR, ECB and NCBs	General Gov't		Other Residents		of which CIs subject to RR, ECB and NCBs	General Gov't		Other Residents			
		Central Gov't	Other Gen. Gov't				Central Gov't	Other Gen Gov't					
<b>LIABILITIES</b>													
<b>8</b>	<b>Currency in circulation</b>												
<b>9</b>	<b>Deposits (all currencies)</b>												
<b>9e</b>	<b>Euro</b>												
<b>9.1e</b>													
<b>9.2e</b>	<b>With agreed maturity</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>9.3e</b>	<b>Redeemable at notice</b>												
	up to 3 months												
	over 3 months												
	o/w over 2 years												
<b>9.4e</b>													
<b>9x</b>	<b>Non-MU currencies</b>												
<b>9.1x</b>	<b>Overnight</b>												
<b>9.2x</b>	<b>With agreed maturity</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>9.3x</b>	<b>Redeemable at notice</b>												
	up to 3 months												
	over 3 months												
	o/w over 2 years												
<b>9.4x</b>													
<b>10</b>	<b>Money market fund shares/units</b>												
<b>11</b>	<b>Debt securities issued</b>												
<b>11e</b>	<b>Euro</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>11x</b>	<b>Non-MU currencies</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>12</b>	<b>Money market paper</b>												
	<b>Euro</b>												
	<b>Non-MU currencies</b>												
<b>13</b>	<b>Capital &amp; reserves</b>												
<b>14</b>	<b>Remaining liabilities</b>												
<b>ASSETS</b>													
<b>1</b>	<b>Cash (all currencies)</b>												
	1e o/w euro												
<b>2</b>	<b>Loans</b>												
	2e o/w euro												
<b>3</b>	<b>Securities other than shares</b>												
<b>3e</b>	<b>Euro</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>3x</b>	<b>Non-MU currencies</b>												
	up to 1 year												
	over 1 & up to 2 years												
	over 2 years												
<b>4</b>	<b>Money market paper</b>												
	<b>Euro</b>												
	<b>Non-MU currencies</b>												
<b>5</b>	<b>Shares &amp; other equity</b>												
<b>6</b>	<b>Fixed assets</b>												
<b>7</b>	<b>Remaining assets</b>												

For footnotes explaining certain features of this table format, see Table I in Annex 4.1.

## Annex 4.3

### **Statistical requirements of small Monetary Financial Institutions that are not credit institutions**

With regard to small Monetary Financial Institutions (MFIs) that are not credit institutions, national central banks that decide to relieve small MFIs of full reporting requirements should inform the institutions

concerned about this fact, but continue, as a minimum, to collect annual data relating to the total balance sheet so that the size of the reporting “tail” can be monitored.

# Annex 4.4

## **Minimum standards to be applied by the actual reporting population**

The following minimum standards must be fulfilled by reporting agents to meet the statistical reporting requirements of the European Central Bank (ECB):

### **1. Minimum standards for transmission**

- (a) reporting to national central banks must be timely and within the deadlines set by the national central banks;
- (b) statistical reports must take their form and format from the technical reporting requirements set by national central banks;
- (c) contact person(s) must be identified; and
- (d) the technical specifications for data transmission to national central banks must be followed.

### **2. Minimum standards for accuracy**

- (e) the statistical information must be correct:
  - all linear constraints must be fulfilled (e.g. balance sheets must balance, sub-totals must add up to totals); and
  - data must be consistent across all frequencies;
- (f) reporting agents must be able to provide information on the developments implied by the data supplied;
- (g) the statistical information must be complete; existing gaps should be acknowledged, explained to national central banks and, where applicable, bridged as soon as possible;
- (h) the statistical information must not contain continuous and structural gaps;
- (i) reporting agents must follow the dimensions and decimals set by the national central banks for the data to be supplied; and
- (j) reporting agents must follow the rounding policy set by the national central banks.

### **3. Minimum standards for conceptual compliance**

- (k) the statistical information must comply with the definitions and classifications contained in the ECB Regulation;
- (l) in the event of deviations from these definitions and classifications, where applicable, reporting agents shall monitor on a regular basis and quantify the difference between the measure used and the measure contained in the ECB Regulation; and
- (m) reporting agents must be able to explain breaks in the data supplied compared with the previous periods' figures;

### **4. Minimum standards for revisions**

- (n) the revisions policy and procedures set by the national central banks must be followed. Revisions which deviate from regular revisions are to be accompanied by explanatory notes.

# Annex 5

## Indicative calendar for the ESCB's tender operations in 1999

JANUARY 1999		FEBRUARY 1999		MARCH 1999		APRIL 1999		MAY 1999		JUNE 1999	
1 Fr		1 Mo	Main-ann.	1 Mo	Main-ann.	1 Th		1 Sa		1 Tu	Main-allotm.
2 Sa		2 Tu	Main-allotm.	2 Tu	Main-allotm.	2 Fr		2 Su		2 We	Main-settl.
3 Su		3 We	Main-settl.	3 We	Main-settl.	3 Sa		3 Mo	Main-ann.	3 Th	
4 Mo	Main-ann.	4 Th		4 Th		4 Su		4 Tu	Main-allotm.	4 Fr	
5 Tu	Main-allotm.	5 Fr		5 Fr		5 Mo	Main-ann.	5 We	Main-settl.	5 Sa	
6 We		6 Sa		6 Sa		6 Tu	Main-allotm.	6 Th		6 Su	
7 Th	Main-settl.	7 Su		7 Su		7 We	Main-settl.	7 Fr		7 Mo	Main-ann.
8 Fr		8 Mo	Main-ann.	8 Mo	Main-ann.	8 Th		8 Sa		8 Tu	Main-allotm.
9 Sa		9 Tu	Main-allotm.	9 Tu	Main-allotm.	9 Fr		9 Su		9 We	Main-settl.
10 Su		10 We	Main-settl.	10 We	Main-settl.	10 Sa		10 Mo	Main-ann.	10 Th	
11 Mo	Main-ann.	11 Th		11 Th		11 Su		11 Tu	Main-allotm.	11 Fr	
12 Tu	Main-allotm./LT-ann.	12 Fr	Main-ann.	12 Fr		12 Mo	Main-ann.	12 We	Main-settl.	12 Sa	
13 We	Main-settl./LT-allotm.	13 Sa		13 Sa		13 Tu	Main-allotm.	13 Th		13 Su	
14 Th	LT-settl.	14 Su		14 Su		14 We	Main-settl.	14 Fr		14 Mo	Main-ann.
15 Fr		15 Mo	Main-allotm.	15 Mo	Main-ann.	15 Th		15 Sa		15 Tu	Main-allotm.
16 Sa		16 Tu		16 Tu	Main-allotm.	16 Fr		16 Su		16 We	Main-settl.
17 Su		17 We	Main-settl.	17 We	Main-settl.	17 Sa		17 Mo	Main-ann.	17 Th	
18 Mo	Main-ann.	18 Th		18 Th		18 Su		18 Tu	Main-allotm.	18 Fr	
19 Tu	Main-allotm.	19 Fr		19 Fr		19 Mo	Main-ann.	19 We	Main-settl.	19 Sa	
20 We	Main-settl.	20 Sa		20 Sa		20 Tu	Main-allotm.	20 Th		20 Su	
21 Th		21 Su		21 Su		21 We	Main-settl.	21 Fr		21 Mo	Main-ann.
22 Fr		22 Mo	Main-ann.	22 Mo	Main-ann.	22 Th		22 Sa		22 Tu	Main-allotm.
23 Sa		23 Tu	Main-allotm./LT-ann.	23 Tu	Main-allotm./LT-ann.	23 Fr		23 Su		23 We	Main-settl.
24 Su		24 We	Main-settl./LT-allotm.	24 We	Main-settl./LT-allotm.	24 Sa		24 Mo	Main-ann.	24 Th	
25 Mo	Main-ann.	25 Th	LT-settl.	25 Th	LT-settl.	25 Su		25 Tu	Main-allotm./LT-ann.	25 Fr	
26 Tu	Main-allotm./	26 Fr		26 Fr		26 Mo	Main-ann.	26 We	Main-settl./LT-allotm.	26 Sa	
27 We	Main-settl./	27 Sa		27 Sa		27 Tu	Main-allotm./LT-ann.	27 Th	LT-settl.	27 Su	
28 Th		28 Su		28 Su		28 We	Main-settl./LT-allotm.	28 Fr		28 Mo	Main-ann.
29 Fr				29 Mo	Main-ann.	29 Th	LT-settl.	29 Sa		29 Tu	Main-allotm./LT-ann.
30 Sa				30 Tu	Main-allotm.	30 Fr		30 Su		30 We	Main-settl./LT-allotm.
31 Su				31 We	Main-settl.			31 Mo	Main-ann.		

JULY 1999		AUGUST 1999		SEPTEMBER 1999		OCTOBER 1999		NOVEMBER 1999		DECEMBER 1999	
1 Th	LT-settl.	1 Su	Main-ann.	1 We	Main-settl.	1 Fr	Main-ann.	1 Mo	Main-ann.	1 We	Main-settl.
2 Fr		2 Mo	Main-allotm.	2 Th		2 Sa		2 Tu	Main-allotm.	2 Th	
3 Sa		3 Tu	Main-allotm.	3 Fr		3 Su		3 We	Main-settl.	3 Fr	
4 Su		4 We	Main-settl.	4 Sa		4 Mo	Main-allotm.	4 Th		4 Sa	
5 Mo	Main-ann.	5 Th		5 Su		5 Tu		5 Fr	Main-ann.	5 Su	
6 Tu	Main-allotm.	6 Fr		6 Mo	Main-ann.	6 We	Main-settl.	6 Sa		6 Mo	Main-ann.
7 We	Main-settl.	7 Sa		7 Tu	Main-allotm.	7 Th		7 Su		7 Tu	Main-allotm.
8 Th		8 Su	Main-ann.	8 We	Main-settl.	8 Fr	Main-ann.	8 Mo	Main-allotm.	8 We	Main-settl.
9 Fr		9 Mo		9 Th		9 Sa		9 Tu		9 Th	
10 Sa		10 Tu	Main-allotm.	10 Fr		10 Su		10 We	Main-settl.	10 Fr	
11 Su		11 We	Main-settl.	11 Sa		11 Mo	Main-allotm.	11 Th		11 Sa	
12 Mo	Main-ann.	12 Th		12 Su		12 Tu		12 Fr		12 Su	
13 Tu	Main-allotm.	13 Fr		13 Mo	Main-ann.	13 We	Main-settl.	13 Sa		13 Mo	Main-ann.
14 We	Main-settl.	14 Sa		14 Tu	Main-allotm.	14 Th		14 Su		14 Tu	Main-allotm.
15 Th		15 Su		15 We	Main-settl.	15 Fr		15 Mo	Main-ann.	15 We	Main-settl.
16 Fr		16 Mo	Main-ann.	16 Th		16 Sa		16 Tu	Main-allotm.	16 Th	
17 Sa		17 Tu	Main-allotm.	17 Fr		17 Su		17 We	Main-settl.	17 Fr	
18 Su		18 We	Main-settl.	18 Sa		18 Mo	Main-ann.	18 Th		18 Sa	
19 Mo	Main-ann.	19 Th		19 Su		19 Tu	Main-allotm.	19 Fr		19 Su	
20 Tu	Main-allotm.	20 Fr		20 Mo	Main-ann.	20 We	Main-settl.	20 Sa		20 Mo	Main-ann.
21 We	Main-settl.	21 Sa		21 Tu	Main-allotm.	21 Th		21 Su		21 Tu	Main-allotm.
22 Th		22 Su		22 We	Main-settl.	22 Fr		22 Mo	Main-ann.	22 We	Main-settl.
23 Fr		23 Mo	Main-ann.	23 Th		23 Sa		23 Tu	Main-allotm./LT-ann.	23 Th	
24 Sa		24 Tu	Main-allotm./LT-ann.	24 Fr		24 Su		24 We	Main-settl./LT-allotm.	24 Fr	
25 Su		25 We	Main-settl./LT-allotm.	25 Sa		25 Mo	Main-ann.	25 Th	LT-settl.	25 Sa	
26 Mo	Main-ann.	26 Th	LT-settl.	26 Su		26 Tu	LT-ann.	26 Fr		26 Su	
27 Tu	Main-allotm./LT-ann.	27 Fr		27 Mo	Main-ann.	27 We	Main-allotm./LT-allotm.	27 Sa		27 Mo	Main-ann./LT-ann.
28 We	Main-settl./LT-allotm.	28 Sa		28 Tu	Main-allotm./LT-ann.	28 Th	Main-settl./LT-settl.	28 Su		28 Tu	
29 Th	LT-settl.	29 Su		29 We	Main-settl./LT-allotm.	29 Fr		29 Mo	Main-ann.	29 We	
30 Fr		30 Mo	Main-ann.	30 Th	LT-settl.	30 Sa		30 Tu	Main-allotm.	30 Th	Main-allotm./settl./LT-allotm./settl.
31 Sa		31 Tu	Main-allotm.			31 Su				31 Fr	

Notes to the table:

Main-ann.: Announcement of main refinancing operation  
Main-allotm.: Allotment of main refinancing operation  
Main-settl.: Settlement of main refinancing operation  
LT-ann.: Announcement of longer-term refinancing operation  
LT-allotm.: Allotment of longer-term refinancing operations  
LT-settl.: Settlement of longer-term refinancing operations

# Annex 6

## **List of the wire services to be used by the ESCB in its communication of monetary policy operations to the public**

- ADX
- AFP
- AFX
- APA
- AP Deutschland
- AP/Dow Jones/Telerate
- Bloomberg Business News
- Bridge News
- Databolsa
- Difesa
- DPA
- Efecom
- FineFix
- Futures World News
- Jiji Press
- Kyodo News Services
- Lisbon's Stock Exchange wire service
- Market News Services
- MMS International
- Radiocor - Sole 24 Ore
- RAFAX
- Reuters
- SDIB
- Tele DATA
- Telekurs
- Unired
- VWD

# Annex 7

## Operational conditions for the use of eligible securities settlement systems<sup>1</sup>

(as at July 1998)

COUNTRY	SSS TO ASSESS	ELIGIBILITY
Belgium	NBB Clearing system CIK Euroclear	Yes, but only on a free delivery basis after 4.15 p.m. Yes, provided that the system conforms with TARGET opening times. Yes, but on a free delivery basis and only with pre-deposited securities until the real-time system is implemented.
Denmark	VP	Yes, but only on a free delivery basis after 3 p.m.
Germany	DBC	Yes, on a free delivery basis after 2.45 p.m. but intend to offer intraday facilities against payment in central bank money on a real-time basis at the start of Stage Three.
Greece	BOGS	Yes, but with pre-deposited securities after 1.30 p.m. until the system conforms with TARGET opening times.
Spain	CADE SCLV Espaclear SCL Barcelona SCL Bilbao SCL Valencia	Yes, but only with pre-deposited securities from 7 a.m. to 4.30 p.m. for intraday requirements. Yes, but only with pre-deposited securities for intraday requirements.
France	Sicovam SA RGV	Yes.
Ireland	CBISSO NTMA	Yes, but only on a free delivery basis. Yes, but only on a free delivery basis.
Italy	LDT CAT Monte Titoli	Yes, but not for intraday requirements. Yes, but only on a free delivery basis. Yes, but only on a free delivery basis.
Luxembourg	Cedel	Yes, but only on a free delivery basis and with pre-deposited securities. From 1 January 1999, Cedel intends to conform with TARGET opening requirements.
Netherlands	Necigef	Yes, but on a free delivery basis between 12 noon and 4 p.m. and with pre-deposited securities after 4 p.m. From 1 January 1999, Necigef intend to conform with TARGET opening requirements.

<sup>1</sup> It should be noted that assets located outside the euro area are not eligible for ESCB monetary policy operations.

<b>COUNTRY</b>	<b>SSS TO ASSESS</b>	<b>ELIGIBILITY</b>
Austria	OEKB system	Yes, but on a free delivery basis before 1.30 p.m. and only with pre-deposited securities after 1.30 p.m.
Portugal	Sitene Interbolsa	Yes, provided the systems conform with TARGET opening times.
Finland	OM system RM system	Yes, but only with pre-deposited securities. Yes, but with pre-deposited securities after 4 p.m. until the system conforms with TARGET opening times.
Sweden	VPC system	Yes.
United Kingdom	CGO  CMO  CREST	Yes, but on a free delivery basis before 3.45 p.m. and with pre-deposited securities after 3.45 p.m. Yes, but on a free delivery basis and only with pre-deposited securities after 5.45 p.m. Yes, but on a free delivery basis before 4 p.m. and with pre-deposited securities after 4 p.m.