



EUROPEAN CENTRAL BANK
EUROSYSTEM

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GUIDELINE (EU) YYYY/[XX] OF THE EUROPEAN CENTRAL BANK

of 16 December 2022

**amending Guideline (EU) 2016/65 on the valuation haircuts applied in the implementation of the
Eurosystem monetary policy framework**

(ECB/2022/49)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

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

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular the first indent of Article 3.1, Articles 9.2, 12.1, 14.3, 18.2 and the first paragraph of Article 20 thereof,

Whereas:

- (1) In accordance with Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank, the European Central Bank (ECB) and the national central banks of the Member States whose currency is the euro (hereinafter the 'NCBs') may conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral. The general conditions under which the ECB and the NCBs stand ready to enter into credit operations, including the criteria determining the eligibility of collateral for the purposes of Eurosystem credit operations, are laid down in Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60)¹.
- (2) All eligible assets for Eurosystem credit operations are subject to specific risk control measures in order to protect the Eurosystem against financial losses in circumstances in which the collateral has to be realised due to an event of default of a counterparty. The Eurosystem risk control framework is regularly reviewed in order to ensure adequate protection. As a result of that regular review, the Governing Council decided on 15 July 2022 to introduce certain changes to the risk control framework.

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

- (3) The Governing Council decided to further phase out the temporary reduction of valuation haircuts that had been decided as part of the temporary collateral easing measures taken by the Eurosystem in response to the exceptional economic and financial circumstances associated with the spread of coronavirus disease (COVID-19). This is the second step of the gradual phasing out of the valuation haircut reduction that was decided by the Governing Council on 23 March 2022, and will conclude that phasing out.
- (4) As the risk profile of other legislative covered bonds and of *multi cédulas* is similar to that of jumbo covered bonds, the Governing Council also decided that they should be subject to the same haircut valuations, and therefore all legislative covered bonds and *multi cédulas* should be included in haircut category II and references to jumbo covered bonds should be removed from Guideline (EU) 2016/65 of the European Central Bank (ECB/2015/35)².
- (5) In addition, the Governing Council decided to change the allocation of debt instruments issued by the European Union from haircut category II to haircut category I, given their comparability to debt instruments in the latter category in terms of pricing as well as market and liquidity risk, when controlling for the credit rating or residual maturity of an instrument. This is in line with the risk management principles of protection, consistency, simplicity and transparency which underpin the design of the Eurosystem's collateral framework, including valuation haircuts.
- (6) In order to allow for a more granular and apposite treatment of the risks associated with long maturity instruments, and thereby improve the risk coverage of the haircuts schedule, it was decided to split the category of instruments with the longest residual maturity, (i.e. more than ten years ($[10, \infty)$) into three new categories, ten to fifteen years ($[10, 15)$), fifteen to thirty years ($[15, 30)$) and thirty years or more ($[30, \infty)$). This decision, combined with the decision to apply a maturity-dependent theoretical valuation markdown, is also intended to improve the granularity of the risk coverage of that theoretical valuation, which is especially relevant for instruments with longer maturities.
- (7) It was also considered necessary to further specify and adjust the definition of the residual maturity for own-use covered bonds, distinguishing between those with a soft bullet structure, and those with a conditional pass-through structure, in order to avoid an unwarranted increase (i.e. not justified by risk considerations) in the valuation haircuts applied to the latter, as a consequence of the abovementioned splitting up of the category of long maturity debt instruments into three distinct categories.
- (8) Furthermore, the Governing Council decided to replace, in both the permanent and the temporary collateral framework, the current flat 5 % theoretical valuation markdown applicable to marketable assets in accordance with Article 134 of Guideline (EU) 2015/510 (ECB/2014/60) with a maturity-graduated markdown schedule, for all theoretically valued marketable assets except those falling

² Guideline (EU) 2016/65 of the European Central Bank of 18 November 2015 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2015/35) (OJ L 14, 21.1.2016, p. 30).

under haircut category I. The reason for this is to protect the Eurosystem's collateral in a more granular way against model risks arising from theoretical valuation of marketable assets.

- (9) Furthermore, with a view to adequately reflecting the risks of marketable assets with floating coupons, and to improving the risk protection of the Eurosystem, it was decided to align the haircut classification of marketable assets with a fixed coupon and those with a floating coupon, as they demonstrated comparable levels of total risk.
- (10) Therefore, Guideline (EU) 2016/65 (ECB/2015/35) should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

Article 1

Amendments

Guideline (EU) 2016/65 (ECB/2015/35) is amended as follows:

1. in Article 2, points (a), (b) and (c) are replaced by the following:
- '(a) debt instruments issued by central governments, debt instruments issued by the European Union, ECB debt certificates and debt certificates issued by NCBs prior to the date of adoption of the euro in their respective Member State whose currency is the euro are included in haircut category I;
- (b) debt instruments issued by: (i) local and regional governments; (ii) entities which are credit institutions or non-credit institutions classified by the Eurosystem as agencies and which meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60); (iii) multilateral development banks and international organisations other than the European Union; as well as legislative covered bonds and *multi cédulas*; are included in haircut category II;
- (c) debt instruments issued by: (i) non-financial corporations; (ii) corporations in the government sector; and (iii) agencies which are non-credit institutions that do not meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60), are included in haircut category III;';

2. Article 3 is replaced by the following:

'Article 3

Valuation haircuts for marketable assets

1. The valuation haircuts for marketable assets allocated to haircut categories I to IV shall be determined based on:
- (a) the allocation of the specific asset to credit quality step 1, 2 or 3;
 - (b) the residual maturity of the asset as detailed in paragraph 2;
 - (c) the coupon structure of the asset as detailed in paragraph 2.
2. For marketable assets allocated to haircut categories I to IV, the applicable valuation haircut shall depend on the residual maturity and coupon structure of the asset (fixed/floating or zero), as

determined based on Table 2 in the Annex to this Guideline. The relevant maturity for determining the valuation haircut to be applied shall be the residual maturity of the asset, irrespective of the type of coupon structure.

2a. The determination of the residual maturity for own-use covered bonds shall depend on whether the own-use covered bonds have a soft bullet structure or a conditional pass-through structure, as follows:

- (a) in the case of own-use covered bonds with a soft bullet structure, the residual maturity shall be defined as the maximum length to which the maturity may be extended as reflected in the terms and conditions for the specific covered bond;
- (b) in the case of own-use covered bonds with a conditional pass-through structure, the residual maturity shall correspond to the [10,15) year category.

For the purposes of this paragraph 2a, 'own-use' shall mean the submission or use by a counterparty of covered bonds that are issued or guaranteed by the counterparty itself or by any other entity with which that counterparty has close links as determined in accordance with Article 138 of Guideline (EU) 2015/510 (ECB/2014/60).

3. For marketable assets allocated to haircut category V, regardless of their coupon structure, the valuation haircuts shall be determined based on the weighted average life of the asset as detailed in paragraphs 4 and 5. The valuation haircuts applicable to marketable assets in category V are laid down in Table 2a in the Annex to this Guideline.

4. The weighted average life of the senior tranche of an asset-backed security shall be estimated as the expected weighted average time remaining until repayment has been made for that tranche. For retained mobilised asset-backed securities, the calculation of the weighted average life shall assume that issuer call options will not be exercised.

5. For the purposes of paragraph 4, "retained mobilised asset-backed securities" shall mean asset-backed securities used in a percentage greater than 75 % of the outstanding nominal amount by a counterparty that originated the asset-backed security or by entities closely linked to the originator. Such close links shall be determined in accordance with Article 138 of Guideline (EU) 2015/510 (ECB/2014/60).';

3. Article 4 is replaced by the following:

'Article 4

Additional valuation haircuts applied to specific types of marketable assets

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

- (a) all marketable assets allocated to haircut categories II, III, IV and V that are theoretically valued in accordance with the rules contained in Article 134 of Guideline (EU) 2015/510 (ECB/2014/60) shall be subject to an additional valuation haircut in the form of a valuation markdown. The valuation markdown, also for own-use covered bonds, shall depend on the

expected residual maturity or, in the case of haircut category V, the weighted average life of the asset, at the levels set out in Table 4 in the Annex to this Guideline. For the purpose of computing the valuation markdown for own-use covered bonds, the expected residual maturity, shall be the originally scheduled maturity date unless and until a maturity extension has been triggered;

- (b) own-use covered bonds shall be subject to an additional valuation haircut of: (i) 8 % applied to the value of the debt instruments allocated to credit quality steps 1 and 2; and (ii) 12 % applied to the value of the debt instruments allocated to credit quality step 3. For the purposes of this paragraph, “own-use” shall have the same meaning as “own-use” as defined in Article 3(2a);
- (c) if the additional valuation haircut referred to in paragraph (b) cannot be applied with respect to a collateral management system of an NCB, triparty agent, or TARGET for auto-collateralisation, the additional valuation haircut shall be applied in such systems or platform to the entire issuance value of the covered bonds that can be own used.’;

4. in Article 5, paragraph 5 is replaced by the following:

‘5. Non-marketable retail mortgage-backed debt instruments shall be subject to a valuation haircut of 31,5 %.’;

5. the Annex is replaced by the Annex to this Guideline.

Article 2

Taking effect and implementation

1. This Guideline shall take effect on the day of its notification to the NCBs.
2. The NCBs shall take the necessary measures to comply with this Guideline and apply them from 29 June 2023. They shall notify the ECB of the texts and means relating to those measures by 17 February 2023 at the latest.

Article 3

Addressees

This Guideline is addressed to the NCBs.

Done at Frankfurt am Main, 16 December 2022.

For the Governing Council of the ECB

[signed]

The President of the ECB

Christine LAGARDE

The Annex to Guideline (EU) 2016/65 (ECB/2015/35) is replaced by the following:

‘ANNEX

Table 1

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

| Category I | Category II | Category III | Category IV | Category V |
|--|---|---|---|-------------------------|
| Debt instruments issued by central governments | Debt instruments issued by local and regional governments | Debt instruments issued by non-financial corporations, corporations in the government sector and agencies which are non-credit institutions that do not meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60) | Unsecured debt instruments issued by credit institutions and agencies which are credit institutions that do not meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60) | Asset-backed securities |
| Debt instruments issued by the European Union | Debt instruments issued by entities (credit institutions or non-credit institutions) classified by the Eurosystem as agencies and which meet the quantitative criteria set out in Annex XIIa to Guideline (EU) 2015/510 (ECB/2014/60) | | Unsecured debt instruments issued by financial corporations other than credit institutions | |
| ECB debt certificates | Debt instruments issued by multilateral development banks and international organisations other than the European Union | | | |
| Debt certificates issued by national central banks (NCBs) prior to the date of adoption of the euro in their respective Member State | Legislative covered bonds | | | |
| | Multi cédulas | | | |

Table 2

Valuation haircut levels (in %) applied to eligible marketable assets in haircut categories I to IV

| | | <i>Haircut categories</i> | | | | | | | |
|-----------------------|-------------------------------------|---------------------------|-------------|--------------------------|-------------|--------------------------|-------------|--------------------------|-------------|
| <i>Credit quality</i> | <i>Residual maturity (years)(*)</i> | Category I | | Category II | | Category III | | Category IV | |
| | | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon |
| Steps 1 and 2 | [0,1) | 0,5 | 0,5 | 1,0 | 1,0 | 1,0 | 1,0 | 7,5 | 7,5 |
| | [1,3) | 1,0 | 2,0 | 1,5 | 2,5 | 2,0 | 3,0 | 10,0 | 11,5 |
| | [3,5) | 1,5 | 2,5 | 2,5 | 3,5 | 3,0 | 4,5 | 12,0 | 13,0 |
| | [5,7) | 2,0 | 3,0 | 3,5 | 4,5 | 4,5 | 6,0 | 14,0 | 15,0 |
| | [7,10) | 3,0 | 4,0 | 4,5 | 6,5 | 6,0 | 8,0 | 16,0 | 17,5 |
| | [10,15) | 4,0 | 5,0 | 6,5 | 8,5 | 7,5 | 10,0 | 18,0 | 22,5 |
| | [15,30) | 5,0 | 6,0 | 8,0 | 11,5 | 9,0 | 13,0 | 21,0 | 25,0 |
| | [30, ∞) | 6,0 | 9,0 | 10,0 | 13,0 | 11,0 | 16,0 | 24,0 | 31,5 |
| | | <i>Haircut categories</i> | | | | | | | |
| <i>Credit quality</i> | <i>Residual maturity (years)</i> | Category I | | Category II | | Category III | | Category IV | |
| | | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon | fixed or floating coupon | zero coupon |
| Step 3 | [0,1) | 5,0 | 5,0 | 5,5 | 5,5 | 6,5 | 6,5 | 11,5 | 11,5 |
| | [1,3) | 6,0 | 7,0 | 7,5 | 10,5 | 9,5 | 12,0 | 18,5 | 20,0 |
| | [3,5) | 8,5 | 10,0 | 11,0 | 16,0 | 13,0 | 18,0 | 23,0 | 27,0 |
| | [5,7) | 10,0 | 11,5 | 12,5 | 17,0 | 15,0 | 21,5 | 25,5 | 29,5 |
| | [7,10) | 11,5 | 13,0 | 14,0 | 21,0 | 17,0 | 23,5 | 26,5 | 31,5 |
| | [10,15) | 12,5 | 14,0 | 17,0 | 25,5 | 19,5 | 28,0 | 28,5 | 35,0 |
| | [15,30) | 13,5 | 15,0 | 20,0 | 28,5 | 22,0 | 31,0 | 31,5 | 39,0 |
| | [30, ∞) | 14,0 | 17,0 | 22,0 | 32,5 | 25,0 | 35,5 | 34,5 | 43,0 |

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

Table 2a

Valuation haircut levels (in %) applied to eligible marketable assets in haircut category V

| | | Category V |
|-----------------------|----------------------------------|--------------------------|
| <i>Credit quality</i> | <i>Weighted Average Life (*)</i> | <i>Valuation haircut</i> |
| Steps 1 and 2 | [0,1) | 4,0 |
| | [1,3) | 5,0 |
| | [3,5) | 7,0 |
| | [5,7) | 9,0 |
| | [7,10) | 12,0 |
| | [10,15) | 18,0 |
| | [15,30) | 20,0 |
| | [30, ∞) | 22,0 |

* i.e. [0,1) WAL less than one year, [1,3) WAL equal to or greater than one year and less than three years, etc.

Table 3

Valuation haircut levels (in %) applied to eligible credit claims

| <i>Credit quality</i> | <i>Residual maturity (years) *</i> | <i>Fixed interest payment</i> | <i>Floating interest payment</i> |
|-----------------------|------------------------------------|-------------------------------|----------------------------------|
| Steps 1 and 2 | [0,1) | 8,0 | 8,0 |
| | [1,3) | 11,5 | 8,0 |
| | [3,5) | 15,0 | 8,0 |
| | [5,7) | 20,0 | 11,5 |
| | [7,10) | 26,0 | 15,0 |
| | [10,15) | 33,0 | 20,0 |
| | [15,30) | 38,0 | 26,0 |
| | [30, ∞) | 40,0 | 33,0 |
| Step 3 | [0,1) | 16,0 | 16,0 |
| | [1,3) | 25,0 | 16,0 |
| | [3,5) | 35,0 | 16,0 |
| | [5,7) | 42,0 | 25,0 |
| | [7,10) | 46,0 | 35,0 |
| | [10,15) | 48,0 | 42,0 |
| | [15,30) | 50,0 | 46,0 |
| | [30, ∞) | 52,0 | 48,0 |

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

Table 4

Valuation markdown levels (in %) applied to marketable assets in haircut categories II to V that are theoretically valued

| Residual maturity/Weighted Average Life (WAL) (years) (*) | Valuation markdown |
|---|--------------------|
| [0,1) | 1,5 |
| [1,3) | 2,5 |
| [3,5) | 3,0 |
| [5,7) | 3,5 |
| [7,10) | 4,5 |
| [10,15) | 6,0 |
| [15,30) | 8,0 |
| [30, ∞) | 13,0 |

* i.e. [0,1) Residual maturity/WAL less than one year, [1,3) residual maturity/WAL equal to or greater than one year and less than three years, etc.'