



EUROPEAN CENTRAL BANK

EUROSYSTEM

Pontus Åberg

Financial Markets and Collateral

Recent developments in eligible and used collateral

Frankfurt am Main, 22 January 2013

Recent Developments – where do we come from?

- Some clustered shortages of collateral
- Danger of hampering the transmission mechanism in some regions
- Decisions to preserve and increase collateral availability with emphasis on those assets whose eligibility would foster bank lending, especially to SMEs and private households:
 - **ABS** (securitised form of claims)
 - **Credit claims** (un-securitised form)

Overview – guiding principles

- Eligible counterparties must be financially sound
- Article 18.1 of the Statute requires all credit operations by the Eurosystem to be “**based on adequate collateral**”
- The concept of adequacy has **2 notions**:
 - Collateral must be able to **protect the Eurosystem** from incurring losses in its credit operations
 - There must be sufficient collateral potentially available to **ensure that the Eurosystem can carry out its tasks.**

Recent Developments – 8 December 2011: Governing Council decision on measures to support bank lending and money market activity

ABS

Rating requirement at issuance lowered from 'AAA' to 'single A', for ABS that have:

- Homogenous pool (only SME loans or only retail mortgages)
- No non-performing (at issuance), structured, syndicated or leveraged loans (at any time)
- The ABS must contain servicing continuity provisions
- Rules for the use: the counterparty submitting the asset may not act as interest swap provider to the transaction

Recent Developments – 8 December 2011: Governing Council decision on measures to support bank lending and money market activity

Additional credit claims (ACC)

- Temporary acceptance of additional performing credit claims that satisfy specific (national) eligibility criteria under the responsibility of NCBs
 - Better knowledge of the domestic economy and legal framework
 - Assess eligibility and credit worthiness
- Depending on the jurisdictions, loans may for instance:
 - Be granted to private households (residential mortgage loans)
 - Be provided by leasing or factoring companies
 - Have a probability of default up to 1.5%
 - Be denominated in USD, GBP, CHF, JPY...
- Average haircut: about 60%
- Pools of credit claims in this format are accepted in IE, ES, FR, IT, CY, AT, PT and GR
- Latest disclosed figures (*cf. Press Conference of 08 March 2012*) – EUR 53 bn in ACC was used as collateral in the second VLTROs

Recent Developments – 20 June 2012

Additional eligible ABS:

Lowering the rating threshold:

- for certain auto loan, leasing and consumer finance ABSs and CMBSs, to at least “single A” at issuance and at all times; haircut of 16%;
- for certain RMBSs, SME ABSs, auto loan, leasing and consumer finance ABSs and CMBSs, to at least “triple B”, at issuance and at all times, provided they fulfil additional requirements related to pool homogeneity and service continuity; haircut of 32% on CMBSs, 26% on others

Recent Developments – 6 September 2012

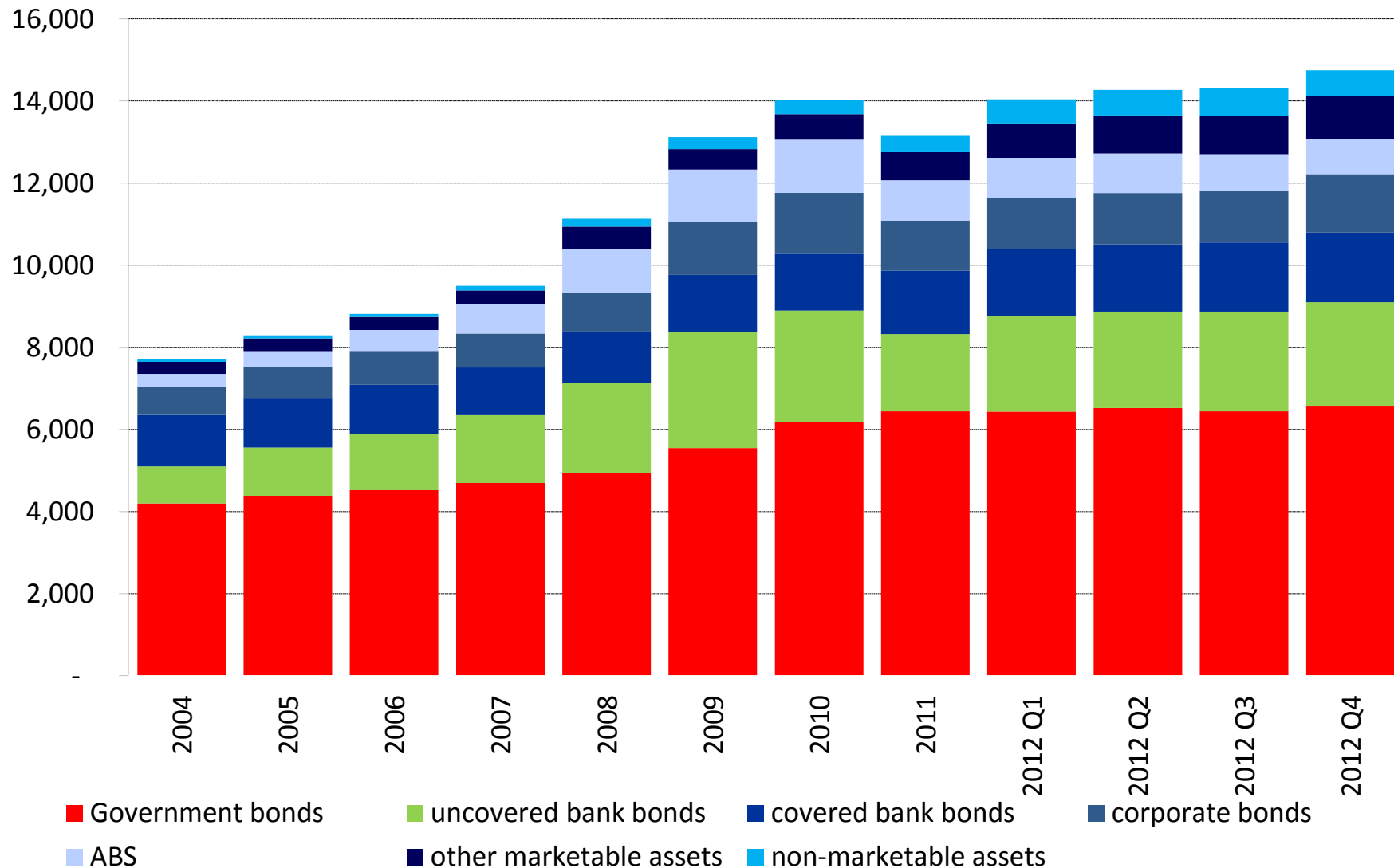
Expansion of the list of eligible assets used as collateral to marketable debt instruments denominated in USD, GBP or JPY; EEA issuer, and issued/held in the euro area, with appropriate valuation markdowns

Recent Developments – 28 November 2012

The General Documentation was updated with technical changes.

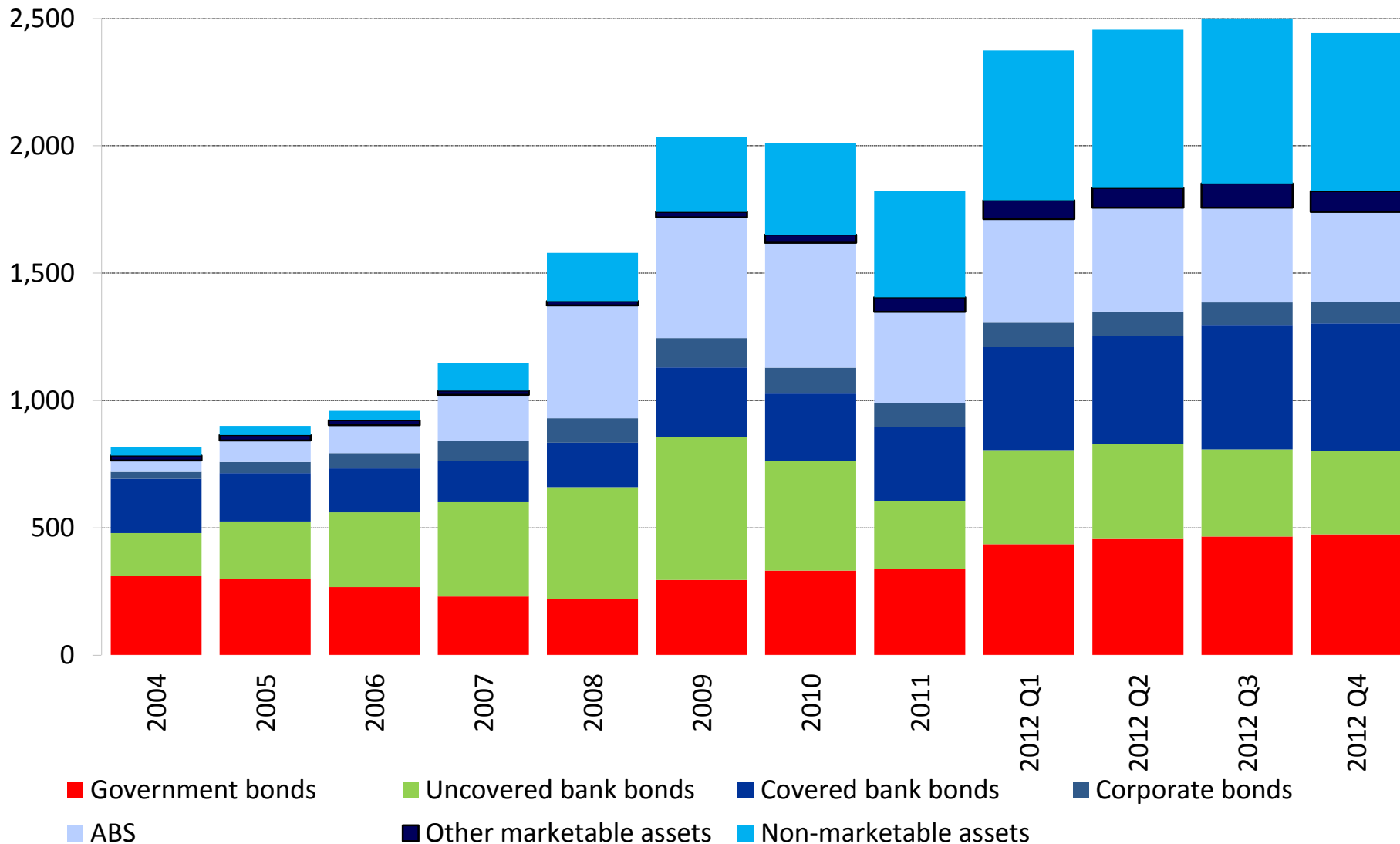
Some figures on eligible marketable assets

(EUR bn, nominal amount)



Some figures on used collateral

(value after haircut, EUR bn)



Issues for discussion:

- Retained securities and own use of collateral
- Arbitrage possibilities in the collateral framework
- Relationship between collateral framework and market functioning