

DOCUMENTATION ON MONETARY POLICY INSTRUMENTS AND PROCEDURES

SUPPLEMENT

on additional temporary measures relating

to Eurosystem refinancing operations and eligibility of collateral

issued by the Central Bank of Ireland (the “Bank”) on 14 September 2012 (as amended with effect from 16 April 2018)

(the “Temporary Measures Supplement”)

This Supplement is supplemental to, and should be read in conjunction with, the Bank’s Documentation on Monetary Policy Instruments and Procedures issued on **16 April 2018**, as may be amended, varied or further supplemented from time to time (the “MPIPs”). In the event of any discrepancy between this Supplement and the MPIPs, this Supplement shall prevail.

All of the provisions of the MPIPs shall continue to apply unaltered unless otherwise provided for by this Supplement. Terms defined in the MPIPs, unless the context otherwise requires, shall have the same meaning when used in this Supplement. Eligibility criteria and related rules are laid down in Guideline ECB/2014/31, as amended by Guideline ECB/2014/46 and Guideline ECB/2016/33.

For the purposes of Section 3.1 and Section 5, the Hellenic Republic and the Republic of Cyprus shall be considered euro area Member States compliant with a European Union/International Monetary Fund programme.

Only Sections 1, 3 and 4 hereto shall apply to foreign currency denominated collateral.

The MPIPs is amended as follows:

1. Admission of certain additional asset-backed securities

Part Four, Title II, Chapter 1 **Eligibility Criteria for Marketable Assets** is amended by the addition of the following Article 72A:

‘Admission of certain additional asset-backed securities

1. In addition to asset-backed securities (ABS) eligible under Article 72, ABS which do not fulfil the credit assessment requirements but which otherwise comply with all eligibility criteria applicable to ABS pursuant to the MPIPs, shall be eligible as

collateral for Eurosystem monetary policy operations, provided that they have two public credit ratings of at least credit quality step 3 in the Eurosystem harmonised rating scale in accordance with Article 82(1)(b) of the MIPs. They shall also satisfy all the following requirements:

- a) the cash-flow generating assets backing the ABS shall belong to one of the following asset classes: (i) residential mortgages; (ii) loans to small and medium-sized enterprises (SMEs); (iii) auto loans; (iv) leasing receivables; (v) consumer finance loans; (vi) credit card receivables;
 - b) there shall be no mix of different asset classes in the cash-flow generating assets;
 - c) the cash-flow generating assets backing the ABS shall not contain loans which are any of the following:
 - i. non-performing at the time of issuance of the ABS;
 - ii. non-performing when incorporated in the ABS during the life of the ABS, for example by means of a substitution or replacement of the cash-flow generating assets;
 - iii. at any time, structured, syndicated or leveraged;
 - d) the ABS transaction documents shall contain servicing continuity provisions.
2. ABS referred to in paragraph 1 of this Article 72A that do not have two public credit ratings of at least credit quality step 2 in the Eurosystem harmonised rating scale in accordance with Article 82(1)(b) of the MIPs shall be subject to a valuation haircut that depends on their weighted average life as detailed in Table C.
- 2a. The weighted average life of the senior tranche of an ABS shall be estimated as the weighted average time remaining until repayment of the cash flows expected from the tranche. For retained mobilised ABS, the calculation of the weighted average life shall assume that issuer call options will not be exercised.
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4. A counterparty may not submit ABS that are eligible pursuant to paragraph 1 of this Article 72A as collateral if the counterparty, or any third party with which it has close links, acts as an interest rate hedge provider in relation to the ABS.

5. The Bank may accept as collateral for Eurosystem monetary policy operations ABS whose underlying assets include residential mortgages or loans to SMEs or both and which do not fulfil the credit assessment requirements under Part Four, Title II, Chapter 2 of the MIPs and the requirements referred to in paragraph 1(a) to (d) of this Article 72A and paragraph 4 of this Article 72A but which otherwise comply with all eligibility criteria applicable to ABS pursuant to the MIPs and have two public credit ratings of at least credit quality step 3 in the Eurosystem harmonised rating scale). Such ABS shall be limited to those issued before 20 June 2012 and shall be subject to a valuation haircut that depends on their weighted average life as detailed in Table C.

6. For the purposes of this Article:
 - a) 'residential mortgage', besides residential real estate mortgage-backed loans, shall include guaranteed residential real estate loans (without a real estate mortgage) if the guarantee is payable promptly on default. Such guarantee may be provided in different contractual formats, including contracts of insurance, provided they are granted by a public sector entity or a financial institution subject to public supervision. The credit assessment of the guarantor for the purposes of such guarantees must comply with credit quality step 3 in the Eurosystem's harmonised rating scale over the life of the transaction;
 - b) 'small enterprise' and 'medium-sized enterprise' shall mean an entity engaged in an economic activity, irrespective of its legal form, where the reported sales for the entity or if the entity is a part of a consolidated group, for the consolidated group is less than €50 million;
 - c) 'non-performing loan' shall include loans where payment of interest or principal is past due by 90 or more days and the obligor is in default, as defined in point 44 of Annex VII to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, or when there are good reasons to doubt that payment will be made in full;
 - d) 'structured loan' means a structure involving subordinated credit claims;
 - e) 'syndicated loan' means a loan provided by a group of lenders in a lending syndicate;
 - f) 'leveraged loan' means a loan provided to a company that already has a considerable degree of indebtedness, such as buy-out or take-over-

financing, where the loan is used for the acquisition of the equity of a company which is also the obligor of the loan;

- g) 'servicing continuity provisions' means provisions in the legal documentation of an ABS that consist of either back-up servicer provisions or back-up servicer facilitator provisions (if there are no back-up servicer provisions). In the case of back-up servicer facilitator provisions, a back-up servicer facilitator should be nominated and mandated to find a suitable back-up servicer within 60 days of the occurrence of a trigger event in order to ensure timely payment and servicing of the ABS. These provisions shall also include servicer replacement triggers for the appointment of a back-up servicer. Such triggers may be rating-based and/or non-rating-based, e.g. non-performance of obligations by the current servicer. In the case of back-up servicer provisions, the back-up servicer shall not have close links to the servicer. In the case of back-up servicer facilitator provisions, there shall not be close links between each of the servicer, the back-up servicer facilitator and the issuer account bank at the same time.
- h) 'close links' has the meaning given in Article 138(2) of the MIPs.
- i) 'retained mobilised ABS' means ABS used in a percentage greater than 75 % of the outstanding nominal amount by a counterparty that originated the ABS or by entities with close links to the originator.

2. Admission of certain additional credit claims

Part Four, Title III, Chapter 1 **Eligibility criteria for non-marketable assets** is amended by the addition of the following Article 89A:

'Admission of certain additional credit claims

The Bank may accept as collateral for Eurosystem monetary policy operations certain additional performing credit claims that do not satisfy the Eurosystem eligibility criteria and that have been approved by the Governing Council. Under this additional credit claims (ACC) initiative the Bank may accept pools of secured (including mortgages, residential and commercial) and unsecured credit claims as collateral for Eurosystem credit operations. The Bank may accept (a) pools of credit claims secured by commercial mortgages and (b) unsecured credit claims advanced to non-financial corporates, in both cases originated prior to 1 January 2014, until 31 December 2014. All ACCs will be subject to the Bank's valuation and risk control criteria and will be accepted by the Bank under contractual arrangements entered into with individual

counterparties. The minimum eligibility criteria and risk control measures applied under the ACC initiative are subject to the prior approval of the ECB Governing Council. The eligibility criteria and risk control measures set out in this Supplement shall be without prejudice to the ECB Governing Council's right to apply additional standards when considering approval of such measures.

Any counterparty wishing to mobilise ACCs is required to contact the Bank at Ordmonetarypolicy@centralbank.ie, following which a meeting will be arranged between the counterparty and the Bank.

1. Collateral Requirements:

- Residential mortgages will be mobilised under an amended version of the Bank's Framework Agreement in respect of Mortgage-Backed Promissory Notes modified to include specific additional risk control measures and eligibility criteria. A template of the Framework Agreements in respect of Special Mortgage Backed € Promissory Notes is available on the Bank's website.
- In relation to pools of residential mortgages, the loans in the cover pool must be secured against residential property located in either Ireland or the UK.
- In relation to pools of credit claims secured by commercial mortgages and unsecured credit claims advanced to non-financial corporates, these ACCs can be accepted under the Framework Agreement in respect of Eurosystem Operations secured over Collateral Pool Assets, a template of which is available on the Bank's website. Counterparties that wish to mobilise these credit claims should contact the Bank.

2. Risk Control Measures for accepting ACCs as collateral:

- Only performing individual ACCs can be accepted and the maximum probability of default (PD) against which liquidity will be provided for these individual ACCs is 1.5% over a one year horizon. For individual credit claims, other than credit claims backed by real estate and pools of credit claims, valuation haircuts shall not be lower than those set out in the schedule below¹:

¹ Haircuts applicable to credit claims with variable rate interest rate payments are the same as those applicable to credit claims with fixed interest payments of corresponding credit quality and maturity.

Minimum haircut schedule applicable to the outstanding amount in %

Maturity (in years)	Credit quality steps 1 and 2 (PD < 0.1%)	Credit quality step 3 (PD < 0.4%)	Credit quality step 4 (PD < 1%)	Credit quality step 5 (PD < 1.5%)
0-1	12	19	42	54
1-3	16	34	62	70
3-5	21	46	70	78
5-7	27	52	78	83
7-10	35	58	78	84
>10	45	65	80	85

- For pools of ACCs, no liquidity can be extended against any non-performing loans or loans with an unstressed, one-year PD of 100%.
- Internal Ratings Based (IRB) models used to provide the PDs must be approved by the Bank.
- The haircut methodology applied will be rigorous and risk-based. All pools of ACCs and the individual ACCs backed by real estate assets shall be subject to minimum haircuts, pool concentration limits and foreign exchange markdowns which shall be recalculated monthly and pools of ACCs shall be subject to concentration limits.
- Valuation markdowns will be applied over the outstanding amount of the ACC as follows: (a) a markdown of 16% on assets denominated in pounds sterling, Australian dollars, Canadian dollars, Swiss francs or US dollars; and (b) a markdown of 26% on assets denominated in yen. The exchange rate applied to loan valuations, which will be updated at least weekly, will be the respective euro foreign exchange reference rate published by the ECB on the day before an update. This measure will also apply in respect of credit claims backing Special Mortgage Backed € Promissory Notes.
- The Eurosystem's Credit Assessment Framework (ECAAF) shall apply to additional credit claims for performance and monitoring purposes to assess the credit quality of the additional credit claims accepted.
- Loan-level data for pools of ACCs and individual ACCs backed by real estate assets shall be submitted electronically to the European DataWarehouse at least on a monthly basis in accordance with one of the relevant templates which shall be published on the Bank's website. This requirement to submit loan-level data shall apply for all ACCs submitted from 1 January 2014 onward. The data submitted under this initiative shall not be available to the public.

- The phase-in period for ACCs is completed, therefore, no mandatory fields for loan-level data may be reported as 'ND1', 'ND2', 'ND3' or 'ND4' for any individual transaction.²
- In its eligibility assessment the NCB shall take account of: (i) any failure to deliver data; and (ii) how frequently individual loan-level data fields are found to contain no meaningful data. In order to retain eligibility monthly loan level submissions are required, the cut-off date for which is the last calendar day of the month. Loan-level data shall be reported no later than one month following the cut-off date. If loan-level data are not reported or updated within one month following the cut-off date, then the pool of ACCs or individual ACCs backed by real estate shall cease to be eligible.
- In line with the treatment of asset-backed securities subject to loan-level requirements, the Eurosystem may accept ACCs included in pools and individual ACCs backed by real estate assets even if mandatory fields for loan-level data include 'ND1', 'ND2', 'ND3', or 'ND4' values, provided that adequate explanations for the unavailability of the data are given. For each adequate explanation, the maximum tolerance level and a tolerance horizon shall be equivalent to those which apply to asset-backed securities, as published on the ECB website. It should be noted that no tolerance is provided for the correction of 'Human Error' and where 'Data is available in the IT systems but not yet reported'.

3. Acceptance of certain government-guaranteed bank bonds

Part Four, Title VIII **Rules for the use of eligible assets** is amended by the addition of the following Article 139A:

'Acceptance of certain government-guaranteed bank bonds

1. The Bank shall not be obliged to accept as collateral for Eurosystem credit operations eligible uncovered bank bonds which: (a) do not fulfil the Eurosystem's requirement of high credit standards; (b) are issued by the counterparty using them or by entities closely linked to the counterparty; and (c) are fully guaranteed by a Member State: (i) whose credit assessment does not comply with the Eurosystem's requirement of high credit standards for issuers and guarantors of marketable assets as laid down in Article 59 and Article 84 of the MIPs; and (ii) which is

² <http://www.ecb.europa.eu/mopo/assets/loanlevel/implementation/html/index.en.html>

compliant with a European Union/International Monetary Fund programme, as assessed by the Governing Council.

2. The Bank will inform counterparties whenever it decides not to accept the securities described in paragraph 1 of this Article 139A as collateral.
3. Counterparties may not submit as collateral for Eurosystem monetary policy operations uncovered bank bonds issued by themselves or issued by closely linked entities and guaranteed by a European Economic Area public sector entity with the right to impose taxes in excess of the nominal value of these bonds already submitted as collateral on 3 July 2012.
4. In exceptional cases, the Governing Council may decide on temporary derogations from this requirement laid down in paragraph 3 of this Article 139A for a maximum of three years. A request for a derogation shall be accompanied by a funding plan that indicates how the own use of uncovered government guaranteed bank bonds by the requesting counterparty will be phased out by no later than three years following the approval of the derogation. Any derogation already granted since 3 July 2012 shall continue to apply until it is due for review.'

4. Admission of certain assets denominated in pounds sterling, yen or US dollars as eligible collateral

Part Four, Title II, Chapter 1 **Eligibility criteria for marketable assets** is amended by the addition of the following Article 65A:

'Admission of certain assets denominated in pounds sterling, yen or US dollars as eligible collateral

1. Marketable debt instruments as described in this Chapter, if denominated in pounds sterling, yen or US dollars shall constitute eligible collateral for Eurosystem monetary policy operations, provided that: (a) they are issued and held/settled in the euro area; (b) the issuer is established in the European Economic Area; and (c) they fulfil all other eligibility criteria included in this Chapter.
2. The Eurosystem shall apply the following valuation markdowns to such marketable debt instruments: (a) a markdown of 16% on assets denominated in pounds sterling or US dollars; and (b) a markdown of 26% on assets denominated in yen.

3. Marketable debt instruments described in paragraph 1 of this Article 65A, which have coupons linked to a single money market rate in their currency of denomination, or to an inflation index containing no discrete range, range accrual, ratchet or similar complex structures for the respective country, shall also constitute eligible collateral for the purposes of Eurosystem monetary policy operations.
4. The ECB may publish a list of other acceptable benchmark foreign currency interest rates, in addition to those referred to in paragraph 3 of this Article 65A, on its website at www.ecb.europa.eu following approval by the Governing Council.'

5. Suspension of the requirements for credit quality thresholds for certain marketable instruments

Part Four, Title II, Chapter 2 **Eurosystem's credit quality requirements for marketable assets** is amended by the addition of the following Article 84A:

'Suspension of the requirements for credit quality thresholds for certain marketable instruments

1. The Eurosystem's minimum requirements for credit quality thresholds, as specified in the Eurosystem credit assessment framework rules for marketable assets in Article 84 shall be suspended in accordance with paragraph 2 of this Section Article 84A.
2. The Eurosystem's credit quality threshold shall not apply to marketable debt instruments issued or fully guaranteed by the central governments of euro area Member States under a European Union/International Monetary Fund programme, unless the Governing Council decides that the respective Member State does not comply with the conditionality of the financial support and/or the macroeconomic programme.
3. Marketable debt instruments issued or fully guaranteed by the central government of the Hellenic Republic or the Republic of Cyprus shall be subject to the specific haircuts set out in Tables A and B below.'

Table A
Haircut Schedule Applying to Marketable Debt Instruments Issued or Fully
Guaranteed by the Hellenic Republic

Greek government bonds	Maturity Bucket	Haircuts for fixed coupons and floaters	Haircuts for zero coupon
	0-1	6.5	6.5
	1-3	11	12
	3-5	16.5	18
	5-7	23	26
	7-10	34	39.5
	>10	40	52.5
Government-guaranteed bank bonds (GGBBs) and government-guaranteed non-financial corporate bonds	Maturity Bucket	Haircuts for fixed coupons and floaters	Haircuts for zero coupon
	0-1	13.5	14
	1-3	19	20
	3-5	24.5	26.5
	5-7	31.5	35
	7-10	43.5	49.5
	>10	50	62

Table B
Haircut Schedule Applying to Marketable Debt Instruments Issued or Fully
Guaranteed by the Republic of Cyprus

Government bonds	Maturity Bucket	Haircuts for fixed coupons and floaters	Haircuts for zero coupon
	0-1	14.5	14.5
	1-3	27.5	29.5
	3-5	37.5	40
	5-7	41	45
	7-10	47.5	52.5
	>10	57	71
Government-guaranteed bank bonds (GGBBs) and government-guaranteed non-financial corporate bonds	Maturity Bucket	Haircuts for fixed coupons and floaters	Haircuts for zero coupon
	0-1	23	23
	1-3	37	39
	3-5	47.5	50.5
	5-7	51.5	55.5
	7-10	58	63
	>10	68	81.5

Table C
Valuation haircut levels applied to asset-backed securities (ABS) eligible under
Article 72A(2) of the MIPs

<i>Weighted Average Life</i>	<i>Valuation haircut</i>
0-1	6.0
1-3	9.0
3-5	13.0
5-7	15.0
7-10	18.0
>10	30.0

