



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Documentation on Monetary Policy Instruments and Procedures Additional Temporary Measures Supplement

8 July 2022

# 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 8 July 2022) (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 **8 July 2022**, 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, Guideline ECB/2016/33, Guideline ECB/2018/05, Guideline ECB/2019/13, Guideline ECB/2020/21, Guideline ECB/2020/29, Guideline ECB/2020/47 and Guideline ECB/2022/19.

Only Sections 1 and 3 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 MPIPs. 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 MPIPs shall be subject to a valuation haircut that depends on their weighted average life as detailed in Table A.
- 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.
- [paragraph 3 deleted]*\_\_\_\_\_
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.
- [paragraph 5 deleted]*\_\_\_\_\_
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 MPIPs.
- (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. If the Bank decides to accept any of these forms of credit claims, it shall establish eligibility criteria and risk control measures for this purpose by specifying deviations from the requirements of the MPIPs. These credit claims shall 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](mailto: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 Ireland.
- In relation to pools of credit claims secured by commercial mortgages and unsecured credit claims advanced to non-financial corporates, these ACCs could potentially 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:**

- 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 shall be subject to minimum haircuts, borrower-level concentration limits and foreign exchange markdowns which shall be recalculated monthly.
- 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) reporting and monitoring process shall apply to the credit assessment systems used for the credit quality assessment of additional credit claims.
- Loan-level data for pools of ACCs shall be submitted electronically, on a monthly basis, to:
  - (a) a securitisation repository within the meaning of Article 2(23) of Regulation (EU) 2017/2402<sup>1</sup> which is registered with the European Securities and Markets Authority (ESMA) pursuant to Article 10 of Regulation (EU) 2017/2402; or
  - (b) an entity designated by the Eurosystem pursuant to Annex VIII to the MPIPs and which continues to fulfil the requirements for designation set out in that annex.

The data submitted under this initiative shall not be available to the public.

- Submissions of loan-level data on ACCs:
  - (i) to a securitisation repository described in sub-paragraph 2(a) can commence at the beginning of the calendar month immediately following the date which is three months from the ESMA reporting activation date as defined in Article 2 of the MPIPs;
  - (ii) to an entity described in sub-paragraph 2(b) are permitted until the end of the calendar month in which the date three years and three months from the ESMA reporting activation date as defined in Article 2 of the MPIPs falls.
- 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

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<sup>1</sup> Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017, p. 35).

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 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 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 reported in accordance with Annex VIII to the MPIPs, and which are published on the ECB website. The ND options listed above shall be understood as defined in Annex VIII to the MPIPs.

### **3. Sanctions for non-compliance with certain operational rules**

For failure to comply with an obligation referred to in Article 154(1)(c) of the MPIPs, the sum of the values in breach of such obligation of all non-compliant credit claims included in a pool of additional credit claims shall be taken into account for the calculation of the financial penalty in accordance with Annex VII of the MPIPs.

### **3. 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 provided by a central bank, or provided by an administrator in accordance with Article 36 of Regulation (EU) 2016/1011 of the European Parliament and of the Council<sup>2</sup>, or a money market rate included as a third country benchmark in the register referred to in Article 36 of that Regulation 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](http://www.ecb.europa.eu) following approval by the Governing Council.’

#### 4. 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 Article 84a.
2. On the basis of a specific decision of the Governing Council to that effect, the Eurosystem’s credit quality threshold shall not apply to marketable debt instruments issued or fully guaranteed by the central government of a euro area Member State under a European Union/International Monetary Fund programme, for as long as such Member State is considered by the Governing Council to comply with the conditionality of the financial support and/or the macroeconomic programme.’

#### 5. Acceptance of marketable debt securities issued by the central government of the Hellenic Republic

Part Four, Title II, Chapter 2 Eurosystem’s credit quality requirements for marketable assets is amended by the addition of the following Article 82a:

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<sup>2</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).



**‘Acceptance of marketable debt securities issued by the central government of the Hellenic Republic**

1. The Bank may accept as collateral for Eurosystem credit operations marketable debt instruments issued by the central government of the Hellenic Republic that do not satisfy the Eurosystem’s credit quality requirements for marketable assets laid down in Article 59 and 71 and Chapter 2 of Title II of Part Four of the MPIPs, provided that these instruments comply with all other eligibility criteria applicable to marketable assets and laid down in the MPIPs. Any counterparty that wishes to mobilise marketable debt securities issued by the central government of the Hellenic Republic is required to contact the Bank at [ordmonetarypolicy@centralbank.ie](mailto:ordmonetarypolicy@centralbank.ie).
2. The securities referred to in paragraph 1 that may be accepted by the Bank as collateral shall be subject to the valuation haircuts as detailed in Table B.’

*[Section 6 deleted]*

**Table A: Valuation haircut levels (in %) applied to asset-backed securities (ABS) eligible under Article 72a(2)**

<i>Credit quality</i>	<i>Weighted Average Life (*)</i>	<i>Valuation haircut</i>
Step 3	0-1	5.4
	1-3	8.1
	3-5	11.7
	5-7	13.5
	7-10	16.2
	>10	27

\* i.e. 0-1 weighted average life (WAL) less than one year, 1-3 WAL equal to or greater than one year and less than three years, etc.

**Table B: Valuation haircut levels (in %) applied to eligible marketable assets referred to in Article 82a(2)**

<i>Credit quality</i>	<i>Residual maturity (years) (*)</i>	<b>Category I</b>	
		<b>Fixed and floating coupon</b>	<b>Zero coupon</b>
Step 4	0-1	7.2	7.2
	1-3	10.8	11.7
	3-5	12.6	13.5
	5-7	14	15.3
	7-10	14.9	16.2
	>10	16.2	18.9
Step 5	0-1	9	9
	1-3	12.6	13.5
	3-5	14.9	15.8
	5-7	16.2	17.6
	7-10	17.1	18.5
	>10	18.5	21.2

\* 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.



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