

**GUIDELINE (EU) 2016/2299 OF THE EUROPEAN CENTRAL BANK****of 2 November 2016****amending Guideline (EU) 2016/65 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2016/32)**

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) 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 where its collateral has to be realised due to an event of default of a counterparty. As a result of the regular review of the Eurosystem risk control framework, several adjustments must be made in order to ensure adequate protection.
- (2) Therefore, Guideline (EU) 2016/65 of the European Central Bank (ECB/2015/35) <sup>(1)</sup> should be amended accordingly,

HAS ADOPTED THIS GUIDELINE:

*Article 1***Amendments**

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

1. Article 1 is replaced by the following:

*‘Article 1***Valuation haircuts applied to eligible marketable assets**

1. In accordance with Title VI of Part Four of Guideline (EU) 2015/510 (ECB/2014/60), marketable assets shall be subject to valuation haircuts, as defined in point 97 of Article 2 of Guideline (EU) 2015/510 (ECB/2014/60), at the levels set forth in Tables 2 and 2a in the Annex to this Guideline.
2. The valuation haircut for a specific asset depends on the following factors:
  - (a) the haircut category to which the asset is allocated, as defined in Article 2;
  - (b) the residual maturity or the weighted average life of the asset, as defined in Article 3;
  - (c) the coupon structure of the asset; and
  - (d) the credit quality step to which the asset is allocated;
2. in Article 2, points (b) and (c) are replaced by the following:
  - ‘(b) debt instruments issued by local and regional government, entities classified as agencies by the Eurosystem, multilateral development banks and international organisations, as well as UCITS compliant jumbo covered bonds, are included in haircut category II;
  - (c) UCITS compliant covered bonds other than UCITS compliant jumbo covered bonds, other covered bonds and debt instruments issued by non-financial corporations are included in haircut category III;’

<sup>(1)</sup> 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).

3. 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 as follows.
    - (a) For marketable assets with zero and fixed rate coupons, the applicable valuation haircuts shall be determined based on Table 2 in the Annex to this Guideline. The relevant maturity for determining the valuation haircut shall be the residual maturity of the asset.
    - (b) For marketable assets with floating coupons, the applicable valuation haircuts shall equal the valuation haircut applied to fixed coupon marketable assets with zero-to-one year residual maturity, except in the following cases:
      - (i) floating coupons with a resetting period longer than one year shall be treated as fixed rate coupons and the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset;
      - (ii) floating coupons that have a euro area inflation index as a reference rate shall be treated as fixed rate coupons and the relevant maturity for the valuation haircut to be applied shall be the residual maturity of the asset;
      - (iii) floating coupons with a floor that does not equal zero and/or floating coupons with a ceiling shall be treated as fixed rate coupons.
    - (c) The valuation haircut applied to assets that have more than one type of coupon structure shall solely depend on the coupon structure in place during the remaining life of the asset and shall equal the highest haircut applicable to a marketable asset with the same residual maturity and credit quality step. Any type of coupon structure in place during the remaining life of the asset may be considered for this purpose.
  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).;
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 36,5 %.’;
5. in Article 5, paragraph 7 is replaced by the following:
- ‘7. Each underlying credit claim included in the cover pool of a non-marketable debt instrument backed by eligible credit claims (hereinafter “DECC”) shall be subject to a valuation haircut applied at an individual level following the rules set out in paragraphs 1 to 4 above. The aggregate value of the underlying credit claims included in the cover pool after the application of valuation haircuts shall, at all times, remain equal to or above the value of the principal amount of the DECC that is outstanding. If the aggregate value falls below the threshold referred to in the previous sentence, the DECC shall be deemed ineligible.’.
6. The Annex to Guideline (EU) 2016/65 (ECB/2015/35) 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 national central banks of the Member States whose currency is the euro.
2. The national central banks of the Member States whose currency is the euro shall take the necessary measures to comply with this Guideline and apply them from 1 January 2017. They shall notify the ECB of the texts and means relating to those measures by 5 December 2016 at the latest.

*Article 3***Addressees**

This Guideline is addressed to the national central banks of the Member States whose currency is the euro.

Done at Frankfurt am Main, 2 November 2016.

*For the Governing Council of the ECB*  
*The President of the ECB*  
Mario DRAGHI

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## ANNEX

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 ECB debt certificates debt certificates issued by national central banks (NCBs) prior to the date of adoption of the euro in their respective Member State	debt instruments issued by local and regional governments debt instruments issued by entities classified as agencies by the Eurosystem debt instruments issued by multilateral development banks and international organisations UCITS compliant jumbo covered bonds	UCITS compliant covered bonds other than UCITS compliant jumbo covered bonds other covered bonds debt instruments issued by non-financial corporations and corporations in the government sector	unsecured debt instruments issued by credit institutions unsecured debt instruments issued by financial corporations other than credit institutions	asset-backed securities

Table 2

**Valuation haircut levels applied to eligible marketable assets in haircut categories I to IV**

		Haircut categories							
Credit quality	Residual maturity (years) (*)	Category I		Category II		Category III		Category IV	
		fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed 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	10,5
	[3-5)	1,5	2,5	2,5	3,5	3,0	4,5	13,0	13,5
	[5-7)	2,0	3,0	3,5	4,5	4,5	6,0	14,5	15,5
	[7-10)	3,0	4,0	4,5	6,5	6,0	8,0	16,5	18,0
	[10,∞)	5,0	7,0	8,0	10,5	9,0	13,0	20,0	25,5

		Haircut categories							
Credit quality	Residual maturity (years) (*)	Category I		Category II		Category III		Category IV	
		fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon
Step 3	[0-1)	6,0	6,0	7,0	7,0	8,0	8,0	13,0	13,0
	[1-3)	7,0	8,0	9,5	13,5	14,5	15,0	22,5	25,0
	[3-5)	9,0	10,0	13,5	18,5	20,5	23,5	28,0	32,5
	[5-7)	10,0	11,5	14,0	20,0	23,0	28,0	30,5	35,0
	[7-10)	11,5	13,0	16,0	24,5	24,0	30,0	31,0	37,0
	[10,∞)	13,0	16,0	19,0	29,5	24,5	32,0	31,5	38,0

(\*) 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 applied to eligible marketable assets in haircut category V

		Category V
Credit quality	Weighted Average Life (WAL) (*)	Valuation haircut
Steps 1 and 2 (AAA to A-)	[0-1)	4,0
	[1-3)	4,5
	[3-5)	5,0
	[5-7)	9,0
	[7-10)	13,0
	[10,∞)	20,0

(\*) 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 applied to eligible credit claims with fixed interest payments**

		Valuation methodology	
Credit quality	Residual maturity (years) (*)	Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB
Steps 1 and 2 (AAA to A-)	[0-1)	10,0	12,0
	[1-3)	12,0	16,0
	[3-5)	14,0	21,0
	[5-7)	17,0	27,0
	[7-10)	22,0	35,0
	[10,∞)	30,0	45,0
		Valuation methodology	
Credit quality	Residual maturity (years) (*)	Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB
Step 3 (BBB+ to BBB-)	[0-1)	17,0	19,0
	[1-3)	28,5	33,5
	[3-5)	36,0	45,0
	[5-7)	37,5	50,5
	[7-10)	38,5	56,5
	[10,∞)	40,0	63,0

(\*) 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.'.