



EUROPEAN CENTRAL BANK

EUROSYSTEM

MODALITIES OF THE TARGETED LONGER-TERM REFINANCING OPERATIONS

Following a decision by the ECB's Governing Council, the Eurosystem will conduct eight targeted longer-term refinancing operations (TLTROs) with the following characteristics:

I PARTICIPATION IN THE TLTROS

Eligible Eurosystem counterparties can participate in a TLTRO individually. In addition, several euro area credit institutions may form a "TLTRO group", if they fulfil specific conditions, and can then participate in a TLTRO through one member of the TLTRO group, the "lead institution".

A group of euro area credit institutions can be recognised as a TLTRO group, if all of the following conditions are fulfilled:

- As at the end of July 2014 each member of the group (i) has a close link to another member of the group according to the definition of "close link" in Annex I to Guideline ECB/2011/14 of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem, or (ii) holds required reserves with the Eurosystem indirectly through another member of the group or is used by another member of the group for indirectly holding required reserves with the Eurosystem. It is only necessary to fulfil one of these two criteria.
- The group appoints one group member as the lead institution for the group. The lead institution must be a counterparty eligible to participate in Eurosystem open market operations.
- The lead institution applies to its home national central bank (NCB) for recognition of the group as a TLTRO group by 8 August 2014 (3.30 p.m. Frankfurt time). The application must include (a) the name of the lead institution, (b) a list of the MFI codes and names of all the credit institutions in the TLTRO group, (c) signed confirmation from all the credit institutions in the group of their formal decision to be members of the TLTRO group in question and not to participate in TLTROs as individual counterparties or as members of other TLTRO groups, and (d) a list of the close links and indirect reserve holding relationships between the members of the group.

- The lead institution has received confirmation from its home NCB that the TLTRO group is recognised by the Eurosystem.

Groups of credit institutions that apply for TLTRO group treatment after 8 August 2014 or that establish close links and/or indirect reserve holding relationships only after the end of July 2014 may be accepted as a TLTRO group only in exceptional cases.

The lead institution is the only member of the TLTRO group that can participate in TLTROs. A credit institution can be the member of only one TLTRO group.

The composition and the lead institution of a TLTRO group must remain unchanged for all eight TLTROs. In exceptional cases, a deviation from this rule on changes to the composition of TLTRO groups (and of lead institutions) may be possible. A credit institution that leaves a TLTRO group will normally no longer be allowed to participate in the series of TLTROs (either individually or indirectly as a member of another TLTRO group).

2 CALCULATION OF BORROWING LIMITS

Counterparties participating in a TLTRO, either individually or as the lead institution of a TLTRO group, will be subject to borrowing limits.

The borrowing limits (and possible mandatory early repayment – see below) applicable to a counterparty participating individually in the TLTROs will be calculated on the basis of the outstanding amounts of loans and net lending to euro area non-financial corporations and households, excluding loans to households for house purchase, granted by the individual counterparty (“eligible loans” and “eligible net lending”).¹ The borrowing limits (and possible mandatory early repayment) applicable to the lead institution of a TLTRO group will be calculated on the basis of the outstanding amounts of eligible loans and eligible net lending granted by all members of the TLTRO group in aggregate.

Let $C_k \geq 0$ be the borrowing of a counterparty² in TLTRO k (with $k = 1, \dots, 8$). The initial borrowing allowance for this counterparty (IA) is:

$$IA = 0.07 \cdot OL$$

¹ Outstanding amounts of eligible loans refer to outstanding loans on the balance sheet net of securitised or otherwise transferred loans which have not been derecognised from the balance sheet. Eligible net lending refers to gross lending net of loan repayments during the period, and does not cover flows related to traditional securitisation and other loan transfers. See the TLTRO reporting template and reporting instructions for the precise definitions.

² References to a “counterparty” should be understood as applying to individual counterparties or TLTRO groups.

Here, OL is the amount outstanding on 30 April 2014 of eligible loans granted by the counterparty. In the first two TLTROs, the following constraint has to be respected:

$$C_1 + C_2 \leq IA$$

This means that total borrowing in the first two TLTROs cannot exceed the amount of the initial allowance.

Let NL_m be the eligible net lending of a counterparty in calendar month m . Let

$$\overline{NL} = \frac{1}{12} (NL_{May2013} + NL_{June2013} + \dots + NL_{April2014})$$

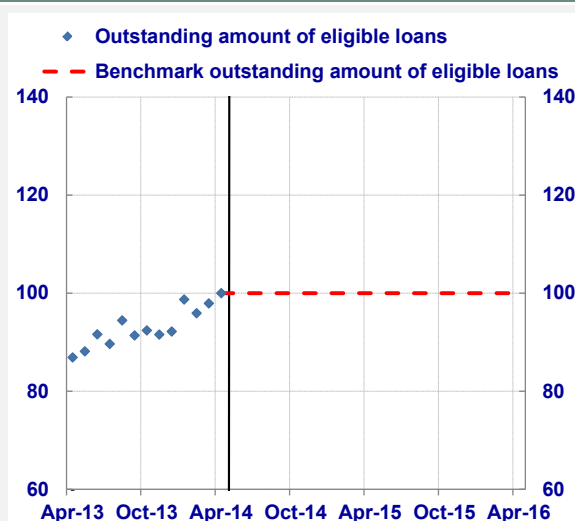
be the average net lending of this counterparty from May 2013 to April 2014.

Denote by BE_k a counterparty's benchmark for TLTRO k (with $k = 3, \dots, 8$, i.e. the TLTROs to be conducted between March 2015 and June 2016).

If $\overline{NL} \geq 0$ (i.e. if the counterparty had positive or zero eligible net lending in the twelve months to 30 April 2014), or if the counterparty was established only after 1 May 2013, then $BE_k = 0$ for all TLTROs $k = 3, \dots, 8$. In other words, the benchmark is set at zero eligible net lending. This is illustrated in Chart 1, which shows the case of a counterparty that has increased its outstanding amount of eligible loans between 30 April 2013 and 30 April 2014 (i.e. that had positive eligible net lending from May 2013 to April 2014). In this case, the benchmark is set at zero eligible net lending, which means that the benchmark based on the outstanding amount of eligible loans remains unchanged at the level reached on 30 April 2014.³

³ For illustration purposes, the interpretation of the benchmark in terms of outstanding amounts provided in this annex assumes that there are no "adjustments to the amounts outstanding" to be made as defined in the TLTRO reporting template and reporting instructions.

Chart 1 Benchmark for a counterparty with positive eligible net lending in the twelve months to 30 April 2014 (index, April 2014 = 100)



If $\overline{NL} < 0$ (i.e. if the counterparty had negative eligible net lending in the twelve months to 30 April 2014), then:

$$BE_k = \overline{NL} \times n_k,$$

where n_k is defined as follows:

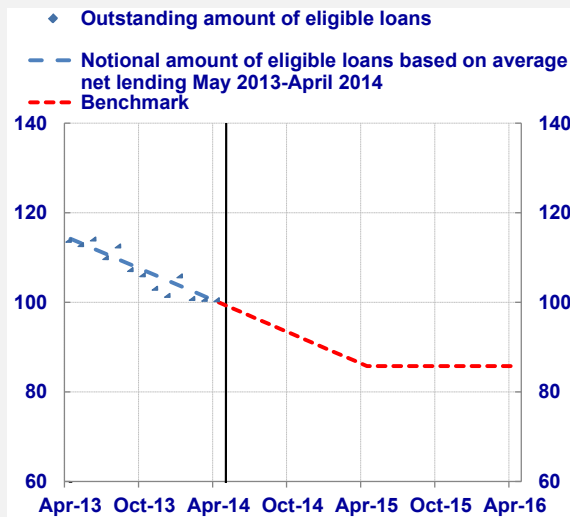
<i>k</i>	3	4	5	6	7	8
<i>Month of TLTRO</i>	Mar. 2015	Jun. 2015	Sept. 2015	Dec. 2015	Mar. 2016	Jun. 2016
<i>Allotment reference month⁴</i>	Jan. 2015	Apr. 2015	Jul. 2015	Oct. 2015	Jan. 2016	Apr. 2016
<i>n_k</i>	9	12	12	12	12	12

This means that the benchmark for each TLTRO allotment reference month will be equal to the average monthly eligible net lending achieved in the twelve months to 30 April 2014 (\overline{NL}) multiplied by the number of months elapsed between 30 April 2014 and the end of the allotment reference month. This, however, will only apply for allotment reference months up to and including April 2015. Thereafter, the benchmark monthly net lending is set to zero. This is illustrated in Chart 2, which shows the case of a counterparty that decreased its outstanding amount of eligible loans between 30 April 2013 and 30 April 2014 (i.e. that had negative

⁴ The allotment reference month of TLTRO *k* is the most recent month for which net lending data is available for TLTRO *k* (for an operation conducted in calendar month *m*, it will be data for the month two calendar months earlier).

eligible net lending from May 2013 to April 2014). In this case, the benchmark based on the outstanding amount of eligible loans is derived by using the average monthly eligible net lending achieved in the twelve months to 30 April 2014 to extend to 30 April 2015 the benchmark based on the outstanding amount of eligible loans as at 30 April 2014. This extension, however, ends on 30 April 2015. Thereafter, the benchmark based on the outstanding amount of eligible loans remains constant.

Chart 2 Benchmark for a counterparty with negative eligible net lending in the twelve months to 30 April 2014 (*index, April 2014 = 100*)



The basis for calculating the additional borrowing allowance for a counterparty in TLTRO k is:

$$AA_k = 3 \times (CNL_k - BE_k),$$

where CNL_k is defined as follows:

k	Month of TLTRO	Allotment reference month	CNL_k
3	Mar. 2015	Jan. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jan2015}$
4	June 2015	Apr. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Apr2015}$
5	Sept. 2015	July 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jul2015}$
6	Dec. 2015	Oct. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Oct2015}$
7	Mar. 2016	Jan. 2016	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jan2016}$
8	June 2016	Apr. 2016	$NL_{May2014} + NL_{June2014} + \dots + NL_{Apr2016}$

For the last six TLTROs $k = 3, \dots, 8$ (i.e. for all TLTROs in which additional allowances can be claimed), the following constraint has to be respected:⁵

$$C_k \leq \max \left\{ 0, AA_k - \sum_{j=3}^{k-1} C_j \right\}$$

This means that in each TLTRO k , the counterparty cannot borrow more than three times the amount by which its eligible net lending granted between 30 April 2014 and the respective allotment reference month (CNL_k) exceeds its benchmark in that allotment reference month (BE_k), less any amounts previously borrowed in TLTROs that take place in the period from March 2015.

3 CALCULATION OF THE MANDATORY EARLY REPAYMENTS

Counterparties that have borrowed in the TLTROs but whose eligible net lending in the period from 1 May 2014 to 30 April 2016 is below the benchmark will be required to pay back their borrowings in September 2016.

The mandatory early repayment in September 2016 of a counterparty is:

$$MR = \sum_{k=1}^8 C_k, \text{ if } BE_8 > CNL_8$$

This means that if the total eligible net lending granted by the counterparty in the period from 1 May 2014 to 30 April 2016 is lower than the benchmark for the allotment reference month of April 2016, then the full amount of borrowings in all TLTROs must be repaid in September 2016.

If $BE_8 \leq CNL_8$ but $\sum_{j=3}^8 C_j > AA_8$, then in September 2016 the counterparty has to repay

$\left(\sum_{j=3}^8 C_j \right) - AA_8$ from the last six TLTROs. In other words, if a counterparty's total borrowings in

the TLTROs conducted from March 2015 to June 2016 $\left(\sum_{j=3}^8 C_j \right)$ exceed the basis for the

⁵ For the TLTRO to be conducted in March 2015 ($k=3$), the constraint is $C_3 \leq \max \{ 0, AA_3 \}$.

calculation of the additional allowance for the allotment reference month of April 2016 (AA_8), then the amount of this excess must be repaid in September 2016.

4 REPORTING OBLIGATIONS OF COUNTERPARTIES

Counterparties interested in participating in a TLTRO (individually or as the lead institution of a TLTRO group) must submit the completed reporting template to their home NCB about four weeks before the TLTRO is conducted. Templates must be submitted for the first TLTRO by 28 August 2014 (3.30 p.m. Frankfurt time) and, for the second TLTRO, by 20 November 2014 (3.30 p.m.), using the respective reporting period and data vintage as indicated in the timetable below. For all other TLTROs, the reporting deadlines, reporting periods and data vintages will be published at a later stage.

The reporting template is accompanied by compilation guidelines which provide detailed definitions for the measures of loans outstanding and net lending used in the exercise. Examples are also provided to assist interested counterparties in fulfilling their reporting obligations.

Once a counterparty has participated in a TLTRO, it must submit reporting templates on a quarterly basis until the programme ends in September 2018.

As a rule, lead institutions of TLTRO groups must complete the reporting template with data aggregated across all members of the TLTRO group. However, if deemed appropriate by the home or host NCB, the lead institution may be required to submit disaggregated data for each individual group member.

Counterparties participating in a TLTRO are required to have an annual examination of data accuracy conducted by an audit firm (which can be carried out in the context of the regular annual audit exercise), or on the basis of an equivalent arrangement.

5 ELIGIBLE COLLATERAL

In the TLTROs, the same Eurosystem collateral rules apply (in relation to eligibility criteria, valuation, haircuts and rules on the use of eligible assets) as in other Eurosystem liquidity-providing refinancing operations.

6 DATES AND DEADLINES

The timetable below shows dates and deadlines in 2014 and the most important dates and deadlines after the end of 2014. All other dates and deadlines will be published at a later stage.

	First TLTRO	Second TLTRO
Lead institutions apply to their respective home NCB for TLTRO group treatment	By 8 Aug 2014, 3.30 p.m. ⁶ (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2014)	
NCBs provide confirmation to lead institutions regarding TLTRO group treatment	On 25 Aug 2014, by 3.30 p.m. at the latest	
Counterparties interested in participating and those that participated in previous TLTROs send completed reporting templates to NCBs	By 28 Aug 2014, 3.30 p.m. Reporting period: 1 May 2013 to 30 April 2014 Data vintage used for BSI transmission with July 2014 as the reference month	By 20 Nov 2014, 3.30 p.m. Reporting period: 1 May 2014 to 31 October 2014 ⁷ Data vintage used for BSI transmission with October 2014 as the reference month
NCBs inform counterparties about their borrowing limits	On 11 Sept 2014, by 3.30 p.m. at the latest	On 4 Dec 2014, by 3.30 p.m. at the latest
Announcement of the TLTRO	16 Sep 2014 (3.30 p.m.)	09 Dec 2014 (3.30 p.m.)
Deadline for counterparties to submit bids to NCBs	17 Sept 2014 (9.30 a.m.)	10 Dec 2014 (9.30 a.m.)
Allotment	18 Sept 2014 (11.15 a.m.)	11 Dec 2014 (11.15 a.m.)
Settlement	24 Sept 2014	17 Dec 2014
Counterparties send updated reporting templates (for calculating mandatory early repayments) to NCBs	By 3.30 p.m. on 17 August 2016 Reporting period: 1 May 2014 to 30 April 2016 (Data vintage will be published later)	
NCBs inform counterparties about mandatory early repayments	On 31 Aug 2016, by 3.30 p.m. at the latest	
Settlement of mandatory early repayments	29 Sept 2016	
Settlement of first voluntary early repayment	28 Sept 2016	21 Dec 2016
Maturity	26 Sept 2018	

⁶ All times in the timetable are Frankfurt times.

⁷ Counterparties that do not participate in the September 2014 TLTRO and have thus not submitted the reporting template for that TLTRO, but would like to participate in the December 2014 TLTRO must also submit by 20 November 2014 a reporting template for the reporting period 1 May 2013 to 30 April 2014. For that purpose, they must use the data vintage used for transmitting BSI data with October 2014 as the reference month.