



PRESS RELEASE

ECB introduces graduated valuation haircuts for lower-rated assets in its collateral framework as of 1 January 2011



8 April 2010

The Governing Council of the European Central Bank (ECB) has decided to keep the minimum credit threshold for marketable and non-marketable assets in the Eurosystem collateral framework at investment-grade level (i.e. BBB-/Baa3) beyond the end of 2010, except in the case of asset-backed securities (ABSs). In addition, the Governing Council has decided to apply, as of 1 January 2011, a schedule of graduated valuation haircuts to the assets rated in the BBB+ to BBB- range (or equivalent).^[1] This graduated haircut schedule will replace the uniform haircut add-on of 5% that is currently applied to these assets.

The detailed haircut schedule will be based on the following parameters:

- › The new haircuts will be duly graduated according to differences across maturities, liquidity categories and the credit quality of the assets concerned. The lowest haircuts will apply to the most liquid assets with the shortest maturities, while the highest haircuts will apply to the least liquid assets with the longest maturities.
- › The new haircuts will be at least as high as the haircut currently applied, which is a flat 5% add-on for the assets concerned over the haircut that would apply to similar assets with a higher credit quality.
- › No changes will be made to the current haircut schedule foreseen for central government debt instruments and possible debt instruments issued by central banks that are rated in the above-mentioned range.
- › The new haircuts will not imply an undue decrease in the collateral available to counterparties.

The specific schedule of haircuts will be published in July 2010.

Furthermore, the Governing Council confirmed that the following instruments will no longer be eligible as collateral as from 1 January 2011:

- › marketable debt instruments denominated in currencies other than the euro, i.e. the US dollar, the pound sterling and the Japanese yen, and issued in the euro area;
- › debt instruments issued by credit institutions, which are traded on the accepted non-regulated markets; and
- › subordinated debt instruments when they are protected by an acceptable guarantee.

[1]More precisely, the schedule applies to credit quality step 3 of the Eurosystem's harmonised rating scale (available on the ECB's website), in which the long-term rating of assets is BBB+/BBB/BBB- by Fitch or Standard & Poor's, Baa1/Baa2/Baa3 by Moody's or BBBH/BBB by DBRS.

European Central Bank

Directorate General Communications

Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany

Tel.: +49 69 1344 7455, E-mail: media@ecb.europa.eu

Website: www.ecb.europa.eu

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