



EUROPEAN CENTRAL BANK
EUROSYSTEM

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THE EXECUTIVE BOARD

19 October 2008
CONFIDENTIAL

WIDENING OF COLLATERAL IN AGREEMENT FOR FINANCIAL TRANSACTIONS BETWEEN THE ECB AND THE CENTRAL BANK OF HUNGARY

On 15 October 2008 the Governing Council decided to establish a repo agreement aiming at providing the Magyar Nemzeti Bank (MNB) with a facility to borrow euro in order to support a foreign exchange swap facility.

On 16 October the MNB requested to change the initially agreed clause on the acceptable collateral in the repo agreement. The MNB wishes to be able to use a wider range of collateral in the new repo facility, as its foreign exchange reserves may also be used for foreign exchange policy purposes. The note approved by the Governing Council on 15 October mentioned that “the collateral to be delivered by MNB would take the form of German, French and Italian government securities”.

Following this request, the ECB’s and the MNB’s operations, legal and risk management departments have examined a widening of the acceptable collateral to “debt obligations issued by the central governments of the Member States which have adopted the euro, the European Investment Bank and Kreditanstalt für Wiederaufbau (KfW) and covered bonds issued by entities established in Germany, France, Sweden and Norway” which are eligible securities for Eurosystem operations in liquidity categories I and II. In addition, the draft agreement mentions that “the Purchased Securities or Securities must have a minimum issue rating of A- (by Fitch or Standard & Poors) or A3 by Moody’s or AL by DBRS, must be denominated in euro and fulfil the criteria set out in Section 6.2.1 of Annex I to Guideline ECB/2000/7, as amended (General documentation on Eurosystem monetary policy instruments and procedures)”.

The Executive Board judges that the request could be accepted only as regards debt obligations issued by the central governments of the Member States which have adopted the euro, the European Investment Bank and Kreditanstalt für Wiederaufbau (KfW), while excluding the covered bonds issued by entities established in Germany, France, Sweden and Norway ██████████
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The Governing Council is invited to decide that the ECB shall agree with the proposed widening of the collateral acceptable in the repo agreement with the Magyar Nemzeti Bank (MNB) only as regards debt obligations issued by the central governments of the Member States which have adopted the euro, the European Investment Bank and Kreditanstalt für Wiederaufbau (KfW), while excluding covered bonds issued by entities established in Germany, France, Sweden and Norway.