

INCENTIVES FOR ADDITIONAL CREDIT CLAIMS

19 MAY 2020



ON TODAY'S CALL

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AGENDA

- **EUROSYSTEM ADDITIONAL CREDIT CLAIMS (ACC) CHARACTERISTICS AND FRAMEWORK**
- **ASSET CLASSES FOR THE ADDITIONAL CREDIT CLAIMS**
- **NEW HAIRCUT LEVELS FOR ACC**
- **BENEFITS OF ACC VS. ABS**
- **STEPS FOR ACC CREATION**
- **NEW REPORTING FREQUENCY FOR ACC**
- **STANZIABILITÀ CREDITI “COVID”**
- **MODALITÀ DI CALCOLO DEGLI HAIRCUT**
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ADDITIONAL CREDIT CLAIMS AND THEIR REGULATORY ASPECTS

MARCO ANGHEBEN

WHAT IS AN ADDITIONAL CREDIT CLAIM?

Credit claims - more commonly referred to as “bank loans” - represent a large share of the collateral accepted by the Eurosystem:

- The Eurosystem accepts credit claims as collateral in its credit operations in several forms
- The term “credit claims” is defined in the EU’s Financial Collateral Directive as pecuniary claims arising out of an agreement whereby a credit institution grants credit in the form of a loan
- The Eurosystem accepts several types of credit claims as collateral

The rules governing the use of ACCs differ somewhat across countries. These are referred to as ACC frameworks. Every national central bank is free to set up a country-specific ACC framework, which however must be approved by the Governing Council on the basis of a common minimum risk control framework. The possibility of implementing ACC frameworks was introduced in December 2011, as part of the enhanced credit support measures to support bank lending during the financial crisis.

The option remains open until the end of the third round of targeted longer-term refinancing operations (TLTRO III) in March 2024.

Source: European Central Bank website

EUROSYSTEM ADDITIONAL CREDIT CLAIM FRAMEWORK (1)

Eligibility Criteria	Non-marketable Assets
Type of asset	Credit claims
Credit standards	The debtor/guarantor must meet high credit standards. The creditworthiness is assessed using Eurosystem credit assessment framework (ECAAF) rules for credit claims.
Handling procedures	Eurosystem procedures
Type of debtor/guarantors	<ul style="list-style-type: none"> • Public sector • Non-financial corporations • International and supranational institutions
Place of establishment of the debtor or guarantor	Euro area
Currency	Euro
Minimum size	Minimum size threshold at the time of submission of the credit claim <ul style="list-style-type: none"> • for domestic use: choice of the NCB; • for cross-border use: common threshold of € 500,000.
Cross-border use	Yes

Source: European Central Bank website

EUROSYSTEM ADDITIONAL CREDIT CLAIM FRAMEWORK (2)

1. Credit claims and additional credit claims (ACCs)

A central element of our collateral easing measures is to expand the acceptance of credit claims as collateral. Additional credit claims (ACCs) are assets that do not fulfil all eligibility criteria under the Eurosystem's general collateral framework. For example, loans with a lower credit quality than the credit claims accepted under the general framework can be eligible as ACC collateral. While the ACC framework was already introduced on a temporary basis in 2012, it has now been amended to enable banks to mobilise more collateral.

Under the revised framework, NCBs are permitted to accept as collateral loans to small and medium-sized enterprises (SMEs) or self-employed individuals that benefit from recently announced government guarantee schemes.^[4]

To complement this measure, the minimum size threshold for loans accepted under the general collateral framework has also been removed so that NCBs can decide to accept very small loans as collateral.

Moreover, the approval of alternative rating systems used for assessing the credit quality of ACCs, such as banks' internal rating-based (IRB) models, has been simplified. In addition, loan-level reporting requirements have been reduced.

The quantitative impact of this measure cannot be estimated precisely as it depends on the extent to which individual NCBs develop new or revise existing national ACC frameworks. However, assuming that government-guaranteed loans will be mobilised as collateral under the expanded ACC frameworks, the impact on collateral availability is expected to be substantial.

Source: European Central Bank website

ECB PRESS RELEASE AS OF 7 APRIL 2020

PRESS RELEASE

ECB announces package of temporary collateral easing measures

7 April 2020

- > ECB adopts an unprecedented set of collateral measures to mitigate the tightening of financial conditions across the euro area
- > Temporary increase in the Eurosystem's risk tolerance in order to support credit to the economy
- > ECB eases the conditions for the use of credit claims as collateral
- > ECB adopts a general reduction of collateral valuation haircuts
- > Waiver to accept Greek sovereign debt instruments as collateral in Eurosystem credit operations
- > ECB will assess further measures to temporarily mitigate the effect on counterparties' collateral availability from rating downgrades

The Governing Council of the European Central Bank (ECB) today adopted a package of temporary collateral easing measures to facilitate the availability of eligible collateral for Eurosystem counterparties to participate in liquidity providing operations, such as the targeted longer-term refinancing operations (TLTRO-III). The package is complementary to other measures recently announced by the ECB, including additional longer-term refinancing operations (LTROs) and the Pandemic Emergency Purchase Programme (PEPP) as a response to the coronavirus emergency. The measures collectively support the provision of bank lending especially by easing the conditions at which credit claims are accepted as collateral. At the same time the Eurosystem is increasing its risk tolerance to support the provision of credit via its refinancing operations, particularly by lowering collateral valuation haircuts for all assets consistently.

The emergency collateral package contains three main features.

The emergency collateral package contains three main features.

- Governing Council (GC) decided on a set of collateral measures to facilitate an increase in bank funding against loans to corporates and households. GC decided to temporarily extend the additional credit claims (ACC) frameworks further by:
 - Accommodating the requirements on guarantees to include government and public sector guaranteed loans to corporates, SMEs and self-employed individuals and households
 - Enlarging the scope of acceptable credit assessment systems used in the ACC frameworks
 - Reducing the ACC loan level reporting requirements
- GC further adopted the following temporary measures:
 - A lowering of the level of the non-uniform minimum size threshold for domestic credit claims to EUR 0 from EUR 25,000 previously to facilitate the mobilisation as collateral of loans from small corporate entities;
 - An increase in the maximum share of unsecured debt instruments issued by any single other banking group in a credit institution's collateral pool.
 - A waiver of the minimum credit quality requirement for marketable debt instruments issued by the Hellenic Republic for acceptance as collateral in Eurosystem credit operations.
- GC decided to temporarily increase its risk tolerance level in credit operations through a general reduction of collateral valuation haircuts by a fixed factor of 20%.
- Full release is available [here](#).

COLLATERAL EASING MEASURES IN RESPONSE TO THE COVID-19 CRISIS

Overview of collateral easing measures.

Category	Collateral easing measures
Credit claims/ ACCs	Acceptance of ACC collateral covered by COVID-19 government guarantees
	Acceptance of new debtor types in ACCs covered by COVID-19 government guarantees
	Acceptance of expanded set of credit assessment systems
	Reduction of loan-level reporting requirements for credit institutions
	Removal of minimum size threshold for credit claims
Rating measures	Collateral eligibility "freeze", rating floor imposed at credit quality step 5 (CQS5)
	ABSs: eligibility "freeze", rating floor imposed at credit quality step 4 (CQS4)
Risk tolerance	Proportionate reduction of haircuts by 20%
	Reduction of haircuts for non-marketable assets
UBBs	Increase of concentration limit for unsecured bank bonds (UBBs) from 2.5% to 10%
Greek waiver	Acceptance of Greek sovereign debt as collateral

Loan level data reporting frequency:

- Monthly to quarterly



Haircut levels:

- 20% reduction

As of May 2020

Source: ECB.

Note: The table only lists collateral measures that were introduced as a response to the COVID-19 crisis.

ASSET CLASSES FOR THE ADDITIONAL CREDIT CLAIMS

So far Bank of Italy has allowed three asset classes of loans to be part of an ACC portfolio:

1. Residential Mortgages
 2. Small and Medium Enterprises
 3. Leases
- Other jurisdictions like Portugal also include Consumer loans



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Gestione delle garanzie



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vai al livello superiore
**ATTUAZIONE DELLA POLITICA MONETARIA ED
EMERGENCY LIQUIDITY ASSISTANCE**

STRUMENTI CONVENZIONALI

OPERAZIONI MIRATE DI RIFINANZIAMENTO A PIÙ
LUNGO TERMINE

OPERAZIONI DI RIFINANZIAMENTO A PIÙ LUNGO
TERMINE AGGIUNTIVE

OPERAZIONI DI RIFINANZIAMENTO A PIÙ LUNGO
TERMINE PER L'EMERGENZA PANDEMICA

OPERATIONAL ASPECTS OF ACC

NICOLA MOSCAN AND EUGENIO BENETTI

ECB ABS & ACC ACCOUNT STATUS REPORTING

Examples of template differences between the ECB ABS and the corresponding ACC fields

	ECB Field Code	ECB ABS Field Description	ECB Field Code	ECB ACC Field Description
RMBS	AR166	Current status of account: Performing (1) Arrears (2) Default or Foreclosure (3) Redeemed (4) Repurchased by Seller (5) Other (6) No Data (ND)	AR166	Current status of account: Performing (1) Restructured - no arrears (2) Arrears (3) Performing but removed from pool by Counterparty (4) Redeemed or Prepaid (5) Other (6)
SME	NA	NA	AS72	Current status of account: Performing (1) Restructured - no arrears (2) Arrears (3) Performing but removed from pool by Counterparty (4) Redeemed or Prepaid (5) Other (6) May use No Data options
Leasing	AL122	Current status of account: Performing (1) Restructured - no arrears (2) Restructured - arrears (3) Default or foreclosure (4) Arrears (5) Repurchased by Seller – breach of reps and warranties (6) Repurchased by Seller – restructure (7) Repurchased by Seller – special servicing (8) Redeemed (9) Other (10) All 'No Data' options may be used in this field	AL122	Current status of account: Performing (1) Restructured - no arrears (2) Arrears (3) Performing but removed from pool by Counterparty (4) Redeemed or Prepaid (5) Other (6) All 'No Data' options may be used in this field

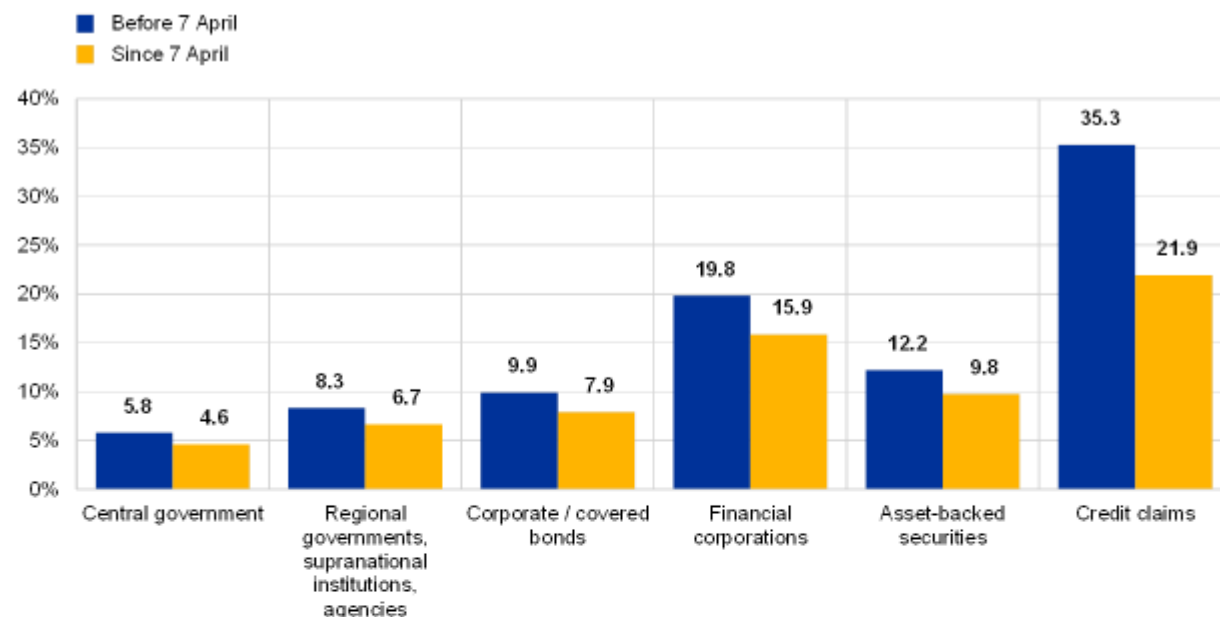
NEW ECB HAIRCUTS ACROSS CATEGORIES

Credit-worthiness	Step 1 & 2		Step 3		Step 4	Step 5
	Residual life (years)	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed and variable
0 – 1	6,4	6,4	12	12	28	40
1 – 3	9,6	6,4	22,4	12	38,4	48
3 – 5	12,8	6,4	29,2	12	41,6	51,2
5 – 7	14,8	9,6	34,4	22,4	44	52,8
7 – 10	19,2	12,8	36	29,2	45,6	54,4
>10	28	14,8	38,4	34,4	48	56

Source: ECB

MAY 2020

AVERAGE VALUATION HAIRCUTS APPLICABLE TO ELIGIBLE ASSET CATEGORIES



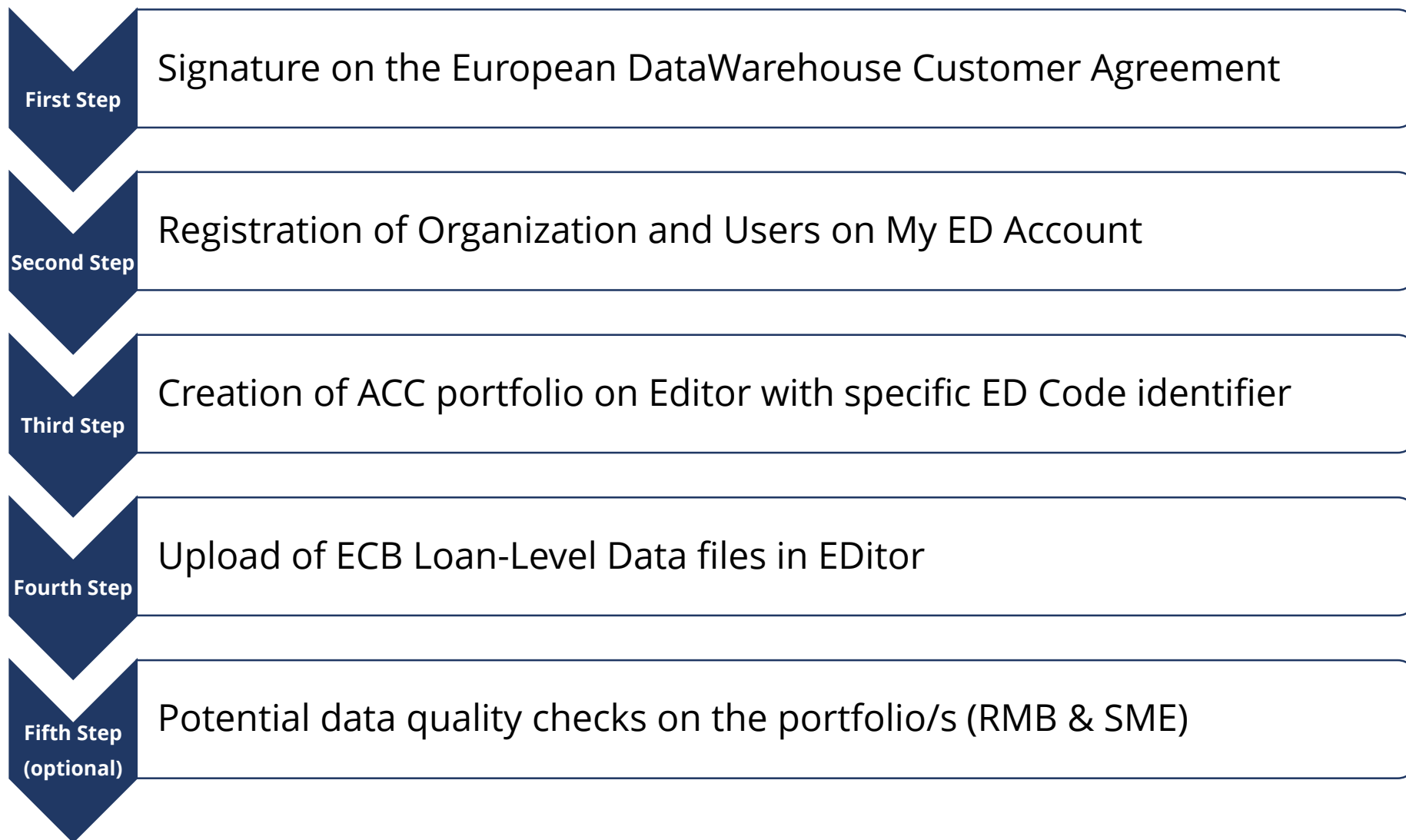
Source: ECB calculations, based on Decision (EU) 2020/506 of the European Central Bank of 7 April 2020 amending Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework and Guideline (EU) 2016/65 on the valuation haircuts applied in the implementation of the Eurosystem monetary policy framework (ECB/2020/20); and Guideline (EU) 2020/515 of the European Central Bank of 7 April 2020 amending Guideline ECB/2014/31 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2020/21).

Notes: The haircuts represent the unweighted average of valuation haircuts across credit quality steps and maturity brackets for assets with fixed coupon structures for each haircut category. These haircut categories reflect a combination of asset type and issuer group. The blue and yellow bars display the average haircuts in place before and after the implementation of the first collateral easing package, respectively.

BENEFITS OF ACC VERSUS ABS

	ACC	ABS
Legal requirements	Country specific	Country specific
Definition of default	Common	May vary
Rating	No Rating required	Rating required
Documentation	Limited	Heavy with offering docs, investor reports etc.
ECB Templates	Auto, RMB, SME, Consumer, Leasing	Auto, RMBS, SME, Consumer, Leasing, Credit Cards, DECC
Reporting Frequency	Every three months	Monthly, Quarterly
Legal Treatment of loans	On-Balance Sheet	Off-Balance Sheet
Pool size	May vary for each reporting period	Static or dynamic
Loan Credit Quality	Performing loans only	All loans

STEPS FOR ACC CREATION



CHIARIMENTI SULLA NUOVA FREQUENZA DI REPORTISTICA

Risposte di Banca d'Italia

La modifica della frequenza della reportistica, da mensile a trimestrale, dei dati di dettaglio sui singoli prestiti si applica solo per i nuovi portafogli ACC oppure viene introdotta anche per i portafogli ACC già esistenti?

- La periodicità trimestrale delle segnalazioni si applica anche ai portafogli che risultavano già esistenti per i quali le *cut-off date* sono fissate alla fine di ogni trimestre solare e l'obbligo informativo va soddisfatto entro un mese dalla *cut-off date*.

Per i portafogli ACC creati dopo il 20 aprile 2020, la frequenza di caricamento trimestrale dei dati di dettaglio sui singoli prestiti si applica sin dal primo caricamento? Praticamente la prima segnalazione a European DataWarehouse deve essere effettuata entro e non oltre la fine di luglio 2020 (e fine ottobre 2020 per la seconda segnalazione) per un nuovo portafoglio creato in data 23 aprile 2020?

- Per quanto riguarda i portafogli conferiti per la prima volta all'EDW, la scadenza per l'assolvimento dell'obbligo di segnalazione trimestrale dei dati di dettaglio sui singoli prestiti dipende dalla data di conferimento del portafoglio presso la Banca d'Italia e presuppone che ci siano stati tre mesi di conferimento.
- Pertanto, per i prestiti conferiti per la prima volta nel mese di aprile l'obbligo di segnalazione all'EDW, con *cut-off date* 30 giugno 2020, va soddisfatto entro il 31 luglio 2020; analogamente, per i prestiti conferiti per la prima volta nel corso del mese di maggio, l'obbligo informativo, con *cut-off date* 31 luglio 2020, va soddisfatto entro il 31 agosto 2020; successivamente le *cut-off date* sono fissate alla fine di ogni trimestre solare e l'obbligo informativo va soddisfatto entro un mese dalla *cut-off date*.

Source: Banca d'Italia

SCHEMA RIEPILOGATIVO DELLE SCADENZE PER INVIO SEGNALAZIONI LLD SUI PORTAFOGLI ACC

Mese primo conferimento pool Banca d'Italia	Cut-off date prima segnalazione	Termine per invio prima segnalazione	Cut-off date seconda segnalazione	Termine per invio seconda segnalazione	Cut-off date terza segnalazione	Termine per invio terza segnalazione
Apr-2020	30 giugno 2020	31 luglio 2020	30 settembre 2020	31 ottobre 2020	31 dicembre 2020	31 gennaio 2021
May-2020	31 luglio 2020	31 agosto 2020	30 settembre 2020	31 ottobre 2020	31 dicembre 2020	31 gennaio 2021
Jun-2020	31 agosto 2020	30 settembre 2020	30 settembre 2020	31 ottobre 2020	31 dicembre 2020	31 gennaio 2021
Jul-2020	30 settembre 2020	31 ottobre 2020	31 dicembre 2020	31 gennaio 2021	31 marzo 2021	30 aprile 2021
Aug-2020	31 ottobre 2020	30 novembre 2020	31 dicembre 2020	31 gennaio 2021	31 marzo 2021	30 aprile 2021
Sep-2020	30 novembre 2020	31 dicembre 2020	31 dicembre 2020	31 gennaio 2021	31 marzo 2021	30 aprile 2021
Oct-2020	31 dicembre 2020	31 gennaio 2021	31 marzo 2021	30 aprile 2021	30 giugno 2021	31 luglio 2021
Nov-2020	31 gennaio 2021	28 febbraio 2021	31 marzo 2021	30 aprile 2021	30 giugno 2021	31 luglio 2021
Dec-2020	28 febbraio 2021	31 marzo 2021	31 marzo 2021	30 aprile 2021	30 giugno 2021	31 luglio 2021
Jan-2021	31 marzo 2021	30 aprile 2021	30 giugno 2021	31 luglio 2021	30 settembre 2021	31 ottobre 2021
Feb-2021	30 aprile 2021	31 maggio 2021	30 giugno 2021	31 luglio 2021	30 settembre 2021	31 ottobre 2021
Mar-2021	31 maggio 2021	30 giugno 2021	30 giugno 2021	31 luglio 2021	30 settembre 2021	31 ottobre 2021

Source: Banca d'Italia

ELIGIBILITY CRITERIA FOR COVID-19 LOANS

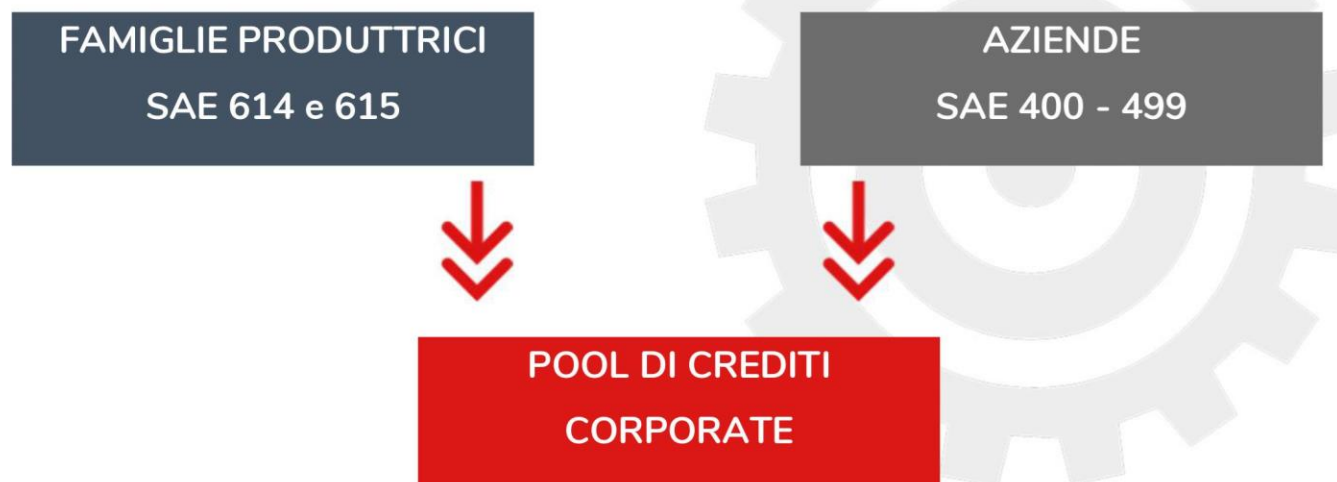
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STANZIABILITÀ CREDITI “COVID-19”



Banca d'Italia accetterà a garanzia delle operazioni di finanziamento i prestiti indicati nel Decreto Legge n. 23/2020 dell'8 aprile 2020 (cd. Decreto Liquidità):

- Prestiti con garanzia STATO erogati a **FAMIGLIE PRODUTTRICI** e **AZIENDE**



MODALITÀ DI CALCOLO DEGLI HAIRCUT



Banca d'Italia applicherà gli haircut in funzione del miglior merito di credito fra debitore e garante.

Al garante viene associato il miglior rating attribuito all'Italia (attualmente DBRS BBBh), riconducibile quindi al 3° Credit quality step (CQS).



Agency	Rating	Outlook	Date
DBRS	BBB (high)	Negative	08/05/2020
0,1% < probabilità di default <=0,4%			

- Prestito con garanzia “Covid” erogato a debitore con PD < di quella dello Stato:
haircut integralmente calcolato sulla base del rating del debitore, a prescindere dalla percentuale di copertura della garanzia.
- Prestito con garanzia “Covid” erogato a debitore con PD > di quella dello Stato:
haircut calcolato sulla base del rating Italia per la quota parte coperta dalla garanzia, e su quello del debitore per la quota non coperta da garanzia Stato.

Nel caso in cui il debitore non avesse un rating o ne avesse uno oltre soglia normativa (PD > 10%) l'haircut applicato alla quota non garantita sarebbe pari al 100%.

ESEMPI



Finanziamento da € 100.000 garantito “COVID”

PD debitore = 0,05%
copertura garanzia dell'80%

Haircut calcolato su € 100.000
in funzione della PD del
debitore

PD debitore = 4%
copertura garanzia dell'80%

Haircut calcolato su € 80.000
in funzione della PD dello Stato

Haircut calcolato su € 20.000
in funzione della PD del
debitore

Pd debitore = 11%
copertura garanzia dell'80%

Haircut calcolato su € 80.000
in funzione della PD dello Stato

Haircut pari al 100% sui
restanti € 20.000



Q&A

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