

Press release

24 March 2022

ECB announces timeline to gradually phase out temporary pandemic collateral easing measures

- Pandemic collateral easing measures introduced in April 2020 will be gradually phased out in three steps between July 2022 and March 2024
- Step-wise phasing out of measures will gradually restore Eurosystem's pre-pandemic risk tolerance and avoid collateral availability cliff effects
- ECB will continue to waive minimum credit quality requirement for GGBs, allowing NCBs to accept them as collateral in line with continued eligibility in PEPP

The Governing Council of the European Central Bank (ECB) has decided to gradually phase out the package of pandemic collateral easing measures in place since April 2020. The Governing Council has taken into account in a forward-looking manner the impact of this gradual phasing out on the collateral availability of Eurosystem counterparties, in particular with regard to their ability to continue mobilising collateral until the maturity of the outstanding targeted longer-term refinancing operations (TLTRO III). Moreover, it has considered the risk impact of each of these measures. This gradual phasing out allows ample time for the Eurosystem's counterparties to adapt, and is scheduled to take place in the following three steps.

Step 1 From 8 July 2022 the ECB will implement a set of decisions. First, it will halve the temporary reduction in collateral valuation haircuts across all assets from the current 20% adjustment to 10%. Second, the ECB will no longer maintain the eligibility of marketable assets that fulfilled minimum credit quality requirements on 7 April 2020 but whose credit ratings subsequently deteriorated below the minimum rating threshold. Third, the ECB will restore the limit with respect to unsecured debt instruments issued by any single other banking group in a credit institution's collateral pool from 10% to 2.5%, as was the case before April 2020. Fourth, the ECB will phase out the temporary easing of certain technical requirements for the eligibility of additional credit claims (ACC), mainly relating to fully

European Central Bank

Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu

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restoring the frequency of the ACC loan level reporting requirements and the acceptance requirements for banks' own credit assessments from internal rating-based systems. The relevant national central banks will communicate the details to the affected counterparties.

Step 2 In June 2023 the ECB expects to implement a new valuation haircut schedule based on its pre-pandemic risk tolerance level for credit operations, phasing out the remaining general 10% reduction in collateral valuation haircuts. Details of the new haircut schedule will be announced in due course and will take into account the results of the forthcoming regular review of the ECB risk control framework.

Step 3 In March 2024 the ECB will in principle phase out the remaining pandemic collateral easing measures, following a comprehensive review of the ACC frameworks that will take into account counterparties' collateral needs for their continued participation in the outstanding TLTRO III operations until December 2024. These measures include the acceptance of various ACCs introduced during the pandemic period, such as loans guaranteed by the government and certain public sector entities.

Notwithstanding this, national central banks may decide to terminate (parts of) their ACC framework early.

The Governing Council has decided to continue to allow NCBs to accept as eligible collateral Greek government bonds (GGBs) that do not satisfy the Eurosystem's minimum credit quality requirements but fulfil all other applicable eligibility criteria, for at least as long as reinvestments in GGBs under the pandemic emergency purchase programme (PEPP) continue.¹

The ECB's Governing Council reserves the right to deviate also in the future from credit rating agencies' ratings if warranted, in line with its discretion under the monetary policy framework, thereby avoiding mechanistic reliance on these ratings.

The ECB's Governing Council adopted the underlying package of temporary collateral easing measures in April 2020 as part of its policy response to the pandemic, to facilitate the availability of eligible collateral for Eurosystem counterparties and to mitigate the effect on collateral availability of possible rating downgrades resulting from the economic fallout from the coronavirus (COVID-19) pandemic.

For media queries, please contact [Verena Reith](mailto:Verena.Reith@ecb.europa.eu), tel.: +49 69 1344 5737.

¹ See "Monetary policy decisions", *press release*, ECB, 16 December 2021, available at: <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216~1b6d3a1fd8.en.html>.

Notes

- What are additional credit claim (ACC) frameworks? https://www.ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/acc_frameworks.en.html.
- Press release of 7 April 2020, available here: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407~2472a8ccda.en.html>.
- Press release of 22 April 2020, available here: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200422_1~95e0f62a2b.en.html.

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