EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Changes to collateral eligibility criteria and risk control measures for unsecured bank bonds

- ECB will amend eligibility criteria and risk control measures applicable to senior unsecured debt instruments issued by credit institutions or investment firms within its collateral framework, with effect from 1 January 2017
- Changes ensure eligibility of senior unsecured debt instruments of such issuers subject to statutory subordination
- Revisions are in response to the implementation of the EU Bank Recovery and Resolution Directive in EU Member States
- Framework to be revisited during the course of 2017, and final collateral eligibility criteria to also depend on further progress towards a common EU approach to the bank creditor hierarchy

The European Central Bank (ECB) has today decided on changes to the collateral eligibility criteria and risk control measures applicable to senior unsecured debt instruments issued by credit institutions or investment firms or their closely linked entities. These instruments are known as unsecured bank bonds (UBBs).

The ECB has decided to maintain the eligibility of UBBs for the time being, including the eligibility of statutorily subordinated UBBs that are not also contractually subordinated, which under the current rules would have become ineligible as at 1 January 2017. Eligibility will also be subject to additional risk control measures. The ECB has decided to reduce, as of 1 January 2017, the usage limit for uncovered bank bonds from 5% to 2.5%. This limit shall not apply where (a) the value of such assets does not exceed €50 million after any applicable haircut or (b) such assets are guaranteed by a public sector entity which has the right to levy taxes, by way of a guarantee that complies with the provisions of Article 114 of the ECB Guideline on the implementation of the Eurosystem monetary policy framework (known as the General Documentation Guideline).

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The need to adjust the collateral eligibility criteria for UBBs has been triggered by the implementation of the EU Bank Recovery and Resolution Directive (BRRD) in EU Member States and the forthcoming minimum requirements for own funds and eligible liabilities (MREL), as well as by the need for global systemically important banks (G-SIBs) to adhere to the new total loss-absorbing capacity (TLAC) framework. This has prompted EU Member States to adopt various legislative approaches to facilitate the ability of banks to issue UBBs with different insolvency rankings.

The ECB reaffirms its support in reaching agreement on a common EU approach to the creditor hierarchy in bank insolvency and resolution, and notes that work is ongoing in this respect.

The ECB will review this decision during the course of 2017, and the collateral eligibility framework eventually applicable to UBBs will also reflect progress made within that period towards a common EU approach.

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