



EUROPEAN CENTRAL BANK

Credit claims

**Eligible collateral for Eurosystem
monetary policy operations**

Frankfurt, 20 September 2006

Gradual phasing in of credit claims

- **Credit claims eligible as collateral from 1 January 2007**
- **Between 1 January 2007 and 31 December 2011: “intermediate” regime**
- **From 1 January 2012: “unified” regime**

Credit claims: a distinct asset class

Credit claims should be treated equally to marketable assets, but...

Credit claims are different from marketable assets:

- **no standardised or uniform documentation**
- **generally not rated**
- **limited secondary market (lack of external prices)**
- **rarely available registers, depositories**

Credit claims: a distinct asset class

- **Consequence:**
 - **specific eligibility criteria**
 - **additional legal requirements**
 - **specific credit assessment framework**
 - **specific handling solution**

Eligibility criteria for credit claims

Eligible credit claim	Debt obligation (excluded: overdrafts, letters of credit, undrawn credit lines)
Eligible debtors guarantors	Non-financial corporation + public sector
Minimum size of credit claims	Until end-2011: choice of NCB From 2012: EUR 500,000
Creditworthiness of the debtor/guarantor	Financially sound: credit quality threshold: comparable to single “A” rating
Currency of denomination	Euro
Maturity	No minimum or maximum
Governing law of agreement	Law of a euro area Member State
Location of the debtor/guarantor	euro area Member State
Additional legal requirements	See following slides

Additional legal requirements

Objective:

- Creation of a valid security interest
- Swift realisation in the event of a counterparty default

Legal issues:

- Timing of debtor notification
- Banking secrecy regarding the debtor information
- Potential restrictions regarding mobilisation and realisation of credit claims

→ Legal requirements may differ among countries

Eurosystem Credit Assessment Framework (ECAAF) for credit claims

Four credit assessment sources:

- External credit assessment institutions (ECAI)
- NCB's internal credit assessment systems (ICAS)
- Internal ratings based system (IRB)
- Third party providers' rating tools (RT)

Core principles of ECAAF:

- Accuracy, consistency, comparability of sources
- The Eurosystem's tolerance for credit risk is defined in terms of a "single A" long term credit rating

ECAF for credit claims

Key aspects:

- **Common definition of default**
- **Measurement: Probability of default**
- **Credit quality threshold of 'A' (comparable to a maximum probability of default of 10 bp per annum)**
- **No ranking of Credit Assessment Source**
- **No rating hopping between sources**
- **Performance monitoring framework**

ECAF for credit claims

Each counterparty using:

- NCB ICAS (where available) or RT will submit list of debtors in their portfolios
- IRB systems will submit (to NCB) debtors in their portfolios passing the minimum credit quality threshold
- ECAI will submit debtors higher than minimum credit quality threshold

Handling solutions for credit claims

- **Decentralised approach to handling of credit claims**
- **Solutions available for cross border use of credit claims (CCBM)**
 - **Procedures for using credit claims as collateral will be implemented according to the national legal and operational environment**
 - **Further harmonisation of handling procedures envisaged in the intermediate regime and completed by 2012.**

National solutions for credit claims (until end 2011)

NCB	Threshold (EUR)	Valuation method	Level of automation	Communication interface with counterparties[1]	Ex ante notification
AT	50,000	Outstanding amount	Manual or electronic pledge Automated handling	Proprietary interface	No; instead, registration in the counterparties' books
BE	2,000,000	Outstanding amount	Automated, except for aspects remaining to be checked manually	SWIFT	No; instead, registration in a central credit register
DE	10,000	Outstanding amount	Automated	Proprietary interface	No
ES	1,000,000	Complex-to-price claims: outstanding amount All others: present value	Semi-automated	Physical delivery of loan agreement	No
FI	500,000	Outstanding amount	Manual or semi-automated	Fax or electronic interface	Ordinary promissory notes: yes (done by the counterparty and copied to Suomen Pankki) Negotiable promissory notes: no, but physical delivery
FR	0	Outstanding amount	Automated solution	Proprietary interface	No
GR	500,000	Outstanding amount	Manual	Physical delivery of loan agreement	Yes
IE	2,000,000	Outstanding amount	Initially, manual	Electronic file	No, when acting as the home NCB Yes, when acting as the CCB
IT	1,000,000	Outstanding amount	Initially, semi-automated Later, more automation	Initially SWIFT and letter with authorised signatures; will be replaced by internet-based solution with digital signature	Yes
LU	not yet decided	Outstanding amount	Semi-automated, based on the infrastructure for marketable assets	SWIFT	Yes (pledge)
NL	1,000,000	Outstanding amount.	Semi-automated	Physical delivery of loan agreement + SWIFT	Yes, plus debtor confirmation
PT	500,000	Outstanding amount	Initially, semi-automated Later, more automation	Internet-based	No
SI	2,000,000	Outstanding amount	Initially, manual	Physical delivery of loan agreement and electronic interface, and fax	Yes

1) For the transmission of the necessary information on credit claims by the counterparty, NCBs may use paper-based procedures (which entail either the physical delivery of the loan agreement or the submission – possibly via fax – of a document giving the details of one or more claims) or electronic procedures based on a standard communication interface (such as SWIFT), an internet-based interface or a communication interface developed individually by the NCB (proprietary interface)

Haircuts for credit claims

Level of valuation haircuts applied to credit claims with fixed interest payments (%)

Residual maturity (years)	Fixed interest payment and a valuation based on a theoretical price assigned by the NCB	Fixed interest payment and a valuation according to the outstanding amount assigned by the NCB
0-1	7	9
1-3	9	15
3-5	11	20
5-7	12	24
7-10	13	29
>10	17	41

Impact of credit claims on the use of collateral

- Current use of credit claims as collateral is limited
- What will be their future usage?

