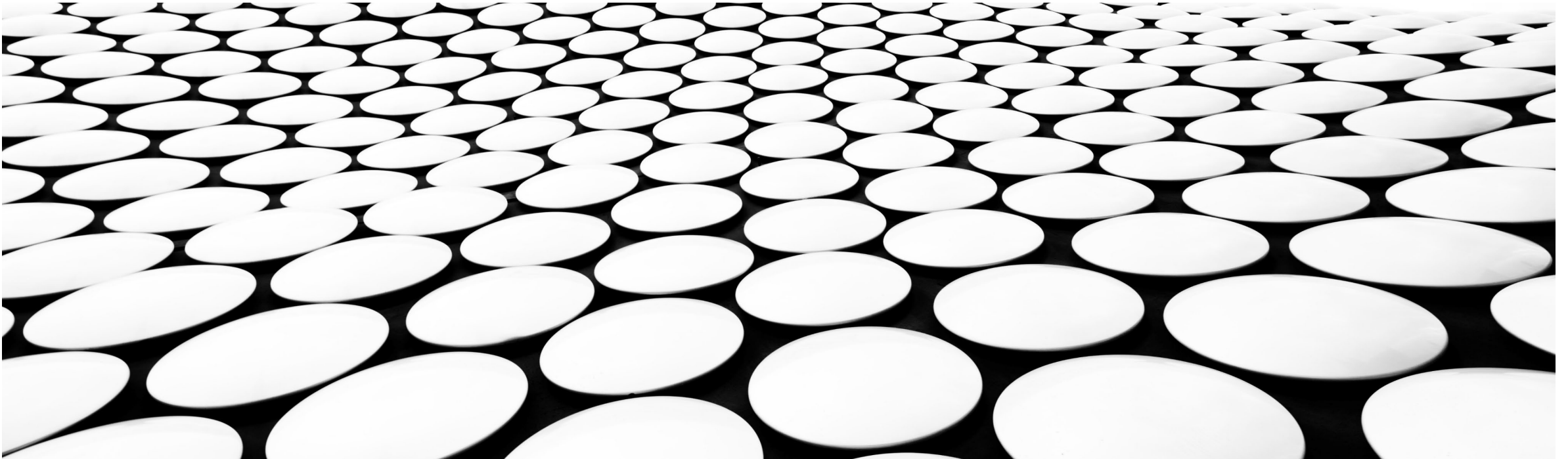

OPERATIONAL READINESS FOR ACCESS TO ECB REFINANCING OPERATIONS

PRACTICES, CHALLENGES AND CONSIDERATIONS

LEIF DOMEYER, ING

DIMITRIS PSICHOGIOS, EUROBANK



COLLATERAL AVAILABILITY, MOBILIZATION, OPERATIONAL READINESS - ECB FUNDING

- **Collateral preparation and management; general considerations, processes and practices**
 - Eligibility of collateral – ECB criteria : rating/credit quality, asset class (individual loans/ACC, marketable assets etc.), encumbrance etc.
 - Legal framework and agreements (ECB, counterparties)
 - Regular reporting of collateral availability – key stakeholders (e.g., Treasury, Risk, Operations, BUs)
 - Valuations, ratings, haircuts monitoring
 - Centralized collateral management, processing and reporting to ECB; time to cash, process optimization
 - Regular internal monitoring of collateral availability, legal documentation, eligibility, credit quality; monitoring frequency depending on asset class (marketable assets, eligible individual credit claims, etc.)
- **Access to ECB funding – general considerations**
 - Pledged collateral deterioration/ineligibility – operational readiness to substitute with eligible collateral
 - Internal policies/procedures, collateral availability and contingency planning to allow for prompt access to ECB funding (SRO) if/as needed
 - Liquidity stress testing scenarios & collateral availability (e.g., Recovery Plan scenarios)
 - Testing operations with ECB; legal framework and agreements (with ECB, counterparties)
 - Assessment of potential ECB recourse and prevailing market conditions (e.g., monetary policy stance, external events)
 - Cross-border use of collateral –ECMS, CCBM
 - Euro-system credit assessment framework – ECAI, ICAS

POTENTIAL CONSIDERATIONS REGARDING RECOURSE TO ECB REFINANCING

- **Internal decision making process & potential considerations; stakeholders**
 - Reactive/event driven liquidity risk management; considerations
 - Nature of the need to raise funding and its expected duration
 - Whether driven by idiosyncratic or systemic events or considerations
 - Availability and ability to swiftly mobilize available/eligible collateral
 - “Transferability” of collateral across jurisdictions; constraints
 - Alternative options : ECB or market funding (secured, unsecured), availability, time to cash
 - Reputational aspect– perceived “stigma” when access to ECB is driven by short term (SRO) rather than “structural/long term” (e.g., TLTRO) considerations
 - Proactive (“strategic”) liquidity planning – may be relevant in the context of
 - Business/Funding Plans
 - Contingencies and/or regulatory considerations (e.g., Contingency Funding Plan, Recovery Plan)
 - Internal stakeholders & governance bodies: Treasury, Risk Management, Risk Committees, Board

INTERNAL-EXTERNAL STAKEHOLDERS PERSPECTIVE ON ECB FUNDING – POTENTIAL CONSIDERATIONS

- Recourse to ECB shorter-term financing might be negatively perceived (“stigma”) where access to ECB may be driven by idiosyncratic/tactical considerations (SRO), especially in the recent context of ample market liquidity conditions with market solutions (e.g., repos) being quite cost competitive.
- On the other hand, “structural/long term” ECB operations with targeted objectives regarding the support/growth of lending activity and attractive cost (e.g., TLTROs in the Covid Pandemic, or in 2016-2019 period) were generally considered more systemic in nature and were broadly utilized by banks across the Eurozone.
- “Incentivizing” broader use of ECB refinancing – potential considerations
 - Implementation of the ECMS; potential to reduce operational impediments regarding cross-border collateral utilization, should consider both marketable and non-marketable assets (e.g., credit claims)
 - Use of SRO benefits LCR; could there be other longer term ECB operations that would also benefit NSFR, and/or be considered as “strategic” funding plan options? Could appropriate ECB communication help alleviate the “stigma” perception?
 - “External stakeholders” perceptions regarding recourse to ECB refinancing ; e.g., investors, rating agencies

COMMENTS FROM S&P GLOBAL * (SEP 17 2024)

- “The European Central Bank (ECB) and the Bank of England (BoE) have announced that they intend to maintain a stock of ample central bank reserves and mainly use standard bank refinancing operations to deploy these reserves in the banking system.
- This means that central banks will play a significant role in banks' funding and liquidity plans on a permanent basis. All else being equal, this makes banks' funding profiles more flexible, which we view positively.
- *That said, to make their new operational frameworks effective, central banks will need to remove the potential stigma surrounding the use of central bank facilities and also ensure that banks are operationally prepared to access them. This is no easy task, but neither is it insurmountable.*
- *We would not necessarily see a bank's plans to rely on central bank contingency funding to cover potential stressed outflows as a liquidity weakness. We would take a positive view of banks enhancing their preparedness to access central bank facilities, for instance, by pre-positioning eligible assets.”*

* <https://www.spglobal.com/ratings/en/research/articles/240917-european-banks-preparedness-is-key-to-unlocking-central-bank-funding-13246412>

FOR DISCUSSION: "HOW TO IMPROVE OPERATIONAL READINESS OF EURO AREA BANKS TO ACCESS OPERATIONS"

- Requirement for periodic/regular testing with the ECB, in order to validate the effectiveness and operational readiness of the front to back processing of central bank funding operations, may be a “no-regret” proposition
- Efficient and timely collateral management across collateral classes/pools ; considerations
 - Coordination regarding the broader use of collateral across jurisdictions
 - Prepositioning unencumbered/idle collateral to the ECMS without necessarily drawing on funding
 - How could financial institutions be incentivized?
- Inter-operability between central bank and bilateral/private market operations – potential benefits and costs

DISCLAIMER

This presentation has been prepared for informational purposes only.

It does not constitute financial, legal, tax or investment advice or an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. This publication is not intended for solicitation purposes but only for use as general information.

The content gives a high-level picture of how the ECB refinancing operates, it is based on publicly available information and has not been elaborated or endorsed by the European Central Bank (ECB) or any other regulatory authority.

The above ideas, comments and conclusions expressed herein may also constitute the presenters' own views and do not necessarily represent the presenters' institutions' positions and each slide is the combined work of both participants from the two banking institutions.

The presenters (a) do not make any representations or warranties regarding the information contained herein, whether express or implied, including without limitation any implied warranty of merchantability or fitness for a particular purpose or any warranty with respect to the accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any third party's use of any information contained herein under any circumstances, including, without limitation, in connection with actual trading or otherwise or for any errors or omissions contained in this publication.

The information contained in this document is of the date hereof and is subject to change without notice. The information was obtained from a number of different sources. The presenters exercise the greatest care in choosing the information and the sources of information, but no representation or warranty is made as to their accuracy, completeness or correctness of their content. Nevertheless, errors or omissions in those sources or processes cannot be excluded a priori.

Neither the presenters' institutions nor the presenters can be held liable for any direct or indirect damage or loss resulting from the use of this document.

The information contained in this document may be published for the assistance of the recipient, but is not to be relied upon as authoritative, policy making or advice or taken in substitution for the exercise of judgement by any recipient.

Potential viewers should conduct their own research or consult with a professional advisor before making any financial or policy decisions.