ECB Money Market Contact Group

Review of ECB monetary policy measures

ACC frameworks – First experiences and potential issues

Andreas Biewald Treasury Commerzbank | 18.09.2020

Eurosystem Additional Credit Claim portfolios (August 2020)

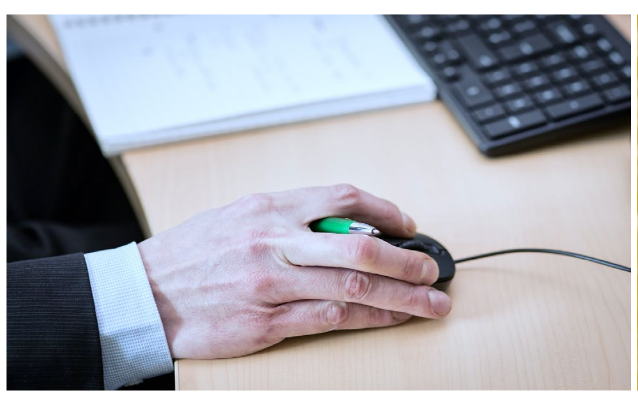
COUNTRIES / ASSET CLASSES	IT	FR	PT	IE	GR	NL	DE
RMB	🟢	🟢	🟢	🟢	🔴	🔴	🔴
SME	🟢	🟢	🟢	🔴	🟡	🔴	🔴
Auto	🔴	🟢	🟢	🔴	🔴	🔴	🔴
Consumer	🟢	🔴	🟢	🔴	🔴	🔴	🔴
Leasing	🟢	🟢	🟢	🔴	🔴	🔴	🔴

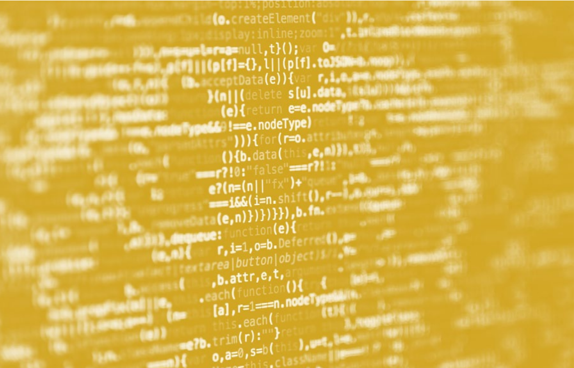
Source: European DataWarehouse

🟢 = Performing Loan Portfolios Currently Pledged with the Eurosystem
🟡 = Reporting In Progress for Portfolios
🔴 = No Reporting for Portfolios

There is no level playing field provided within the Eurosystem regarding the treatment of ACC portfolios, thereby creating significant differences in terms of refinancing facilities and levels

Additional Credit Claims – Eurosystem process





Bank A, B & C report loan portfolios --- European DataWarehouse collect and check --- Portfolio data is sent to the Eurosystem

PROS

- ECB ACC portfolios based on the corresponding ABS templates and taxonomies used since 2013 for the following assets: RMB, auto, leasing, consumer and SME
- No need of a prospectus or offering documents as well as no external rating
- Great flexibility to pledge a small, medium or large number of loans depending on funding needs for each reporting period
- New haircut level as well as other relevant measures introduced from the Eurosystem created an additional incentive in April 2020

CONS

- Data intensive for the IT systems of banks as they need to have all the loan data consistent with the relevant documentation
- Need to update the information on a regular basis
- Only performing loans can be pledged generally with specific characteristics to reduce the concentration risk
- A dedicated team from each bank performs data submissions

Source: European DataWarehouse

Fallback alternatives (1/2)
The role of Covered Bond programmes for banks

Covered bonds are debt instruments secured by an underlying investment pool consisting of e.g. mortgages or public-sector loans that are usually accepted as collateral by central banks

PROS	CONS
• Covered bonds allow – to a certain extend – to include additional assets that are covered by other cover values • Covered bonds are a well accepted product to invest from a variety of investors (e.g. pension funds, bank treasuries, insurance companies) thereby creating a liquid market • Covered bonds are normally rated by at least two rating agencies making this type of debt obligation even more appealing to a broad range of market participants	• A covered bond does not allow to include all asset classes comprised in the different ACC frameworks • The management of the cover pool is a lengthy and often complex, manual review process causing significant costs • Covered bonds are normally considerably over-collateralized in order to comply with legal requirements, subject to maximum loan-to-value ratios and additional standards set by rating agencies • Retained covered bonds are moreover subject to an additional own-use haircut which significantly reduces the collateral value usable for central bank tender operations • External costs for rating agencies and lawyers

Banks without access to ACC frameworks are forced to enlarge their covered bond programmes with the disadvantage of higher costs and lower recognized collateral value

Fallback alternatives (2/2)
The role of securitisation to mobilise non-marketable assets for banks

A residential-mortgage-backed security ('RMBS') is collateralised by a portfolio of residential properties which are under certain conditions central bank eligible

PROS	CONS
• The issuance of a RMBS allows to self-refinance the institute's private mortgage business (self-funding-effect) and increases regulatory liquidity ratios (e.g. LCR, NSFR) • The issuance of a RMBS transforms illiquid mortgage loans into liquid, tradeable securities and thereby improves the use of an institute's capital and funding • Major European market players used RMBS as part of their regular funding activities, thereby creating a liquid market	• A RMBS does not include any asset class apart from residential mortgage claims • Issuing a RMBS is a high-cost and high-effort process causing substantial internal as well as external costs, both initial (e.g. structuring, transaction execution) and ongoing (e.g. rating costs, reporting requirements) • RMBS' are subject to high haircuts compared to covered bonds or ACC portfolios

The lack of ACC frameworks forces banks to enter into securitisation programmes causing high cost disadvantages and a lower value/ volume of assets accepted by the ECB