Decision (EU) 2020/1306 of the European Central Bank of 16 September 2020 on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2020/44)

DECISION (EU) 2020/1306 OF THE EUROPEAN CENTRAL BANK

of 16 September 2020

on the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (ECB/2020/44)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions[(1)], and in particular Article 4(1)(d) thereof,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[(2)], and in particular Article 500b thereof,

Whereas:

(1) The Basel III framework introduced a simple, transparent, non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio standard published by the Basel Committee on Banking Supervision (BCBS) in December 2017 (hereinafter referred to as the 'BCBS standard on the leverage ratio') provides that in order to facilitate the implementation of monetary policies, a jurisdiction may, at its discretion, temporarily exempt central bank reserves from the leverage ratio exposure measure in exceptional macroeconomic circumstances.

(2) The BCBS standard on the leverage ratio was first implemented in Union legislation by Regulation (EU) No 575/2013. Article 430 of Regulation (EU) No 575/2013 requires institutions to report to the competent authorities certain information on their leverage ratio and its components, while Article 451 of that Regulation requires institutions to disclose certain information regarding their leverage ratio and their management of the risk of excessive leverage.

(3) Regulation (EU) No 575/2013 was amended by Regulation (EU) 2019/876 of the European Parliament and of the Council[(3)], inter alia, to reflect revisions that were made to the BCBS standard on the leverage ratio so as to ensure a level playing field internationally for institutions established inside the Union but operating outside the Union, and to ensure that the leverage ratio remains an effective complement to risk-based own funds requirements. Regulation (EU) 2019/876 introduced a leverage ratio requirement to complement the system of reporting and disclosure of the leverage ratio. That Regulation also introduced the possibility of temporarily excluding certain exposures to central banks from the calculation of an institution's total exposure

Changes to legislation: *There are currently no known outstanding effects for the Decision (EU) 2020/1306 of the European Central Bank. (See end of Document for details)*

measure in exceptional circumstances and in order to facilitate the implementation of monetary policies. These amendments to the leverage ratio framework, including the discretion to exclude certain exposures to central banks from the total exposure measure, will become applicable on 28 June 2021.

(4) Regulation (EU) No 575/2013 has since been further amended by Regulation (EU) 2020/873 of the European Parliament and of the Council[(4)], inter alia, to provide for the possibility of temporarily excluding certain exposures to central banks from the calculation of an institution's total exposure measure before 28 June 2021 – that is, before the amendments to the leverage ratio requirement that were introduced by Regulation (EU) 2019/876 become applicable. In particular, Article 500b of Regulation (EU) No 575/2013 permits an institution to exclude certain exposures to the institution's central bank from the total exposure measure where the institution's competent authority has determined, after consultation with the relevant central bank, and publicly declared that exceptional circumstances exist that warrant the exclusion in order to facilitate the implementation of monetary policies. Article 500b of Regulation (EU) No 575/2013 has applied since 27 June 2020.

(5) While financial markets have stabilised since April 2020, financing conditions in the euro area are tighter than at the beginning of the year, on account of higher bond yields and lower equity prices. The situation brought about by the coronavirus (COVID-19) pandemic, as well as the resulting and continued need for a high degree of monetary policy accommodation, and the fragility and vulnerabilities of the euro area economies and of the bank-based transmission channel of monetary policy, all justify the view of the Governing Council of the European Central Bank (ECB) that exceptional circumstances exist that warrant the temporary exclusion until 27 June 2021 of certain exposures to Eurosystem central banks from the calculation of institutions' total exposure measures in order to facilitate the implementation of monetary policies, for the purposes of Article 500b of Regulation (EU) No 575/2013.

(6) The exposures that may be excluded comprise coins and banknotes constituting legal currency in the jurisdiction of the central bank and assets representing claims on the central bank – including reserves held at the central bank – insofar as these exposures are relevant for the transmission, and therefore, implementation of monetary policy. Such exposures include deposits held in the deposit facility and balances held on reserve accounts with the Eurosystem, including funds held in order to meet minimum reserve requirements. Exposures representing claims on the central bank that are not related to the implementation of monetary policy should not be excluded from the total exposure measure.

(7) It is expected that the exclusion under Article 500b of Regulation (EU) No 575/2013 until 27 June 2021 of certain central bank exposures from the total exposure measure would support credit institutions in continuing to fulfil their role in funding the real economy, while preserving the key elements of the prudential regulatory framework. The exclusion may reduce potential constraints linked to the introduction of a new requirement for own funds and eligible liabilities that was implemented in the Union as an amendment to Regulation (EU) No 575/2013 by Regulation (EU) 2019/876 in order

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to reflect the Total-Loss-absorbing Capacity standard, and that has been applicable since 28 June 2019. Furthermore, although the leverage ratio will not apply until 28 June 2021, the exclusion of certain central bank exposures from the total exposure measure until then could be beneficial from the perspective of clear communication of financial information. In particular, institutions would be able to disclose their leverage ratio both with and without the impact of excluded exposures. This information could be useful for financial market participants in assessing the potential future leverage ratios of institutions once the leverage ratio becomes applicable on 28 June 2021.

(8) The ECB, in its monetary policy function, was consulted in accordance with Article 500b(2) of Regulation (EU) No 575/2013 on the determination of exceptional circumstances warranting the exclusion pursuant to Article 500b(1) of that Regulation[(5)],

HAS ADOPTED THIS DECISION:

Article 1

Definitions

The terms used in this Decision shall have the same meaning as the terms defined in Regulation (EU) No 575/2013 and the following definitions shall also apply:

(1) ‘Eurosystem’ means ‘Eurosystem’ as defined in Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60)[(6)];

(2) ‘deposit facility’ means a deposit facility as defined in Guideline (EU) 2015/510 (ECB/2014/60);

(3) ‘reserve account’ means a reserve account as defined in Regulation (EC) No 1745/2003 of the European Central Bank (ECB/2003/9)[(7)];

(4) ‘minimum reserve requirements’ means the minimum reserve requirements as calculated in accordance with Regulation (EC) No 1745/2003 (ECB/2003/9);

(5) ‘significant supervised entity in a euro area Member State’ means a significant supervised entity in a euro area Member State as defined in Regulation (EU) No 468/2014 of the European Central Bank (ECB/2014/17)[(8)].

Article 2

Determination of the existence of exceptional circumstances

1 For the purposes of Article 500b(2) of Regulation (EU) No 575/2013, the ECB has determined that, subject to paragraphs 2 and 3, exceptional circumstances exist that warrant the exclusion of the central bank exposures listed in points (a) and (b) of Article 500b(1) of that Regulation from the total exposure measure in order to facilitate the implementation of monetary policies.

2 With regard to the exposures listed in point (b) of Article 500b(1) of Regulation (EU) No 575/2013 the determination in paragraph 1 shall apply to those exposures to Eurosystem