Decision (EU) 2019/1743 of the European Central Bank of 15 October 2019 on the remuneration of holdings of excess reserves and of certain deposits (recast) (ECB/2019/31)

DECISION (EU) 2019/1743 OF THE EUROPEAN CENTRAL BANK

of 15 October 2019

on the remuneration of holdings of excess reserves and of certain deposits (recast) (ECB/2019/31)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first indent of Article 127(2) thereof,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular the first indent of Article 3.1 and Articles 17 to 19 thereof,

Whereas:

(1) Decision ECB/2014/23[(1)] has been substantially amended[(2)]. Since further amendments are to be made, that Decision should be recast in the interests of clarity.

(2) The Governing Council may adjust the remuneration on all or part of institutions' holdings of excess reserves. On 12 September 2019, the Governing Council decided to introduce a two-tier system for excess reserve remuneration, which exempts part of institutions' excess liquidity holdings, i.e. reserve holdings in excess of required reserves, from negative remuneration at the rate applicable on the deposit facility. In particular, the Governing Council decided to exempt a multiple of institutions' required reserves. The Governing Council decided to set the initial multiplier 'm' of the institutions' required reserves used to calculate the exempt part of institutions' holdings of excess reserves to six for all eligible institutions and the initial interest rate applicable to the exempt holdings of excess reserves to zero percent. This multiplier 'm' and the interest rate applicable to the exempt holdings of excess reserves can be changed over time by the Governing Council.

(3) The decision to introduce a two-tier system for excess reserve remuneration aims to support the bank-based transmission of monetary policy, while preserving the positive contribution of negative interest rates to the accommodative stance of monetary policy and to the continued sustained convergence of inflation to the aim of the European Central Bank (ECB). The two-tier system thus ensures that the costs of negative rates to institutions do not interfere with the smooth, predominantly bank-based transmission of monetary policy throughout the euro area,

HAS ADOPTED THIS DECISION:

Changes to legislation: *There are currently no known outstanding effects for the Decision (EU) 2019/1743 of the European Central Bank. (See end of Document for details)*

Article 1

Remuneration of holdings of excess reserves

1 Holdings of reserves of institutions subject to Article 2 of Regulation (EC) No 1745/2003 of the European Central Bank (ECB/2003/9)[(3)] exceeding the reserves required pursuant to Council Regulation (EC) No 2531/98[(4)] and Regulation (EC) No 1745/2003 (ECB/2003/9) (hereinafter 'excess reserves') shall be remunerated at zero percent or the deposit facility rate, whichever is lower.

2 A part of an institution's holdings of excess reserves on the institution's reserve accounts as defined in Articles 1 and 6 of Regulation (EC) No 1745/2003 (ECB/2003/9) up to a multiple of the institution's required reserves (hereinafter the 'allowance') shall be exempt from the remuneration rule set out in paragraph 1. The multiplier 'm' used to calculate the allowance and the interest rate applicable to the exempt holdings of excess reserves shall be specified by the Governing Council and subsequently published on the ECB's website. Any adjustment to the multiplier 'm' and/or to the interest rate applicable to the exempt holdings of excess reserves shall apply from the maintenance period following the announcement of the Governing Council's decision, unless specified otherwise. The exempt holdings of excess reserves shall be determined on the basis of the average end-of-calendar-day balances over a maintenance period in the institution's reserve accounts, as defined in Articles 1 and 6 of Regulation (EC) No 1745/2003 (ECB/2003/9). Holdings with the Eurosystem's deposit facility shall not be considered excess reserves.

3 The interest due or earned on exempt and non-exempt holdings of excess reserves shall be deducted by debiting the relevant institution's reserve accounts, or as the case may be, paid, on the second NCB business day following the end of the maintenance period over which the interest was calculated.

4 In the case of institutions which hold required reserves through an intermediary pursuant to Article 10 or 11 of Regulation (EC) No 1745/2003 (ECB/2003/9), the allowance shall be calculated as set out in this paragraph. The multiplier 'm' used to calculate the allowance shall be applied on the aggregate required reserves to be maintained by the relevant intermediary institution on behalf of itself and all institutions for which it maintains required reserves pursuant to Article 10 or 11 of Regulation (EC) No 1745/2003 (ECB/2003/9). The interest rate applicable to the exempt holdings of excess reserves shall apply only to excess reserves held on the reserve accounts as defined in Articles 1 and 6 of Regulation (EC) No 1745/2003 (ECB/2003/9) of the relevant intermediary.

[F1 Article 2

Remuneration of certain deposits held with the ECB

Accounts maintained with the ECB in accordance with Decision ECB/2003/14 of the European Central Bank[(5)], Decision ECB/2010/31 of the European Central Bank[(6)], Decision ECB/2010/17 of the European Central Bank[(7)] and Council Regulation (EU) 2020/672[(8)] shall continue to be remunerated at the deposit facility rate. However, when deposits need to be held in those accounts in advance of the date on which a payment must be made in accordance with the legal or contractual rules applicable to the relevant facility, such deposits shall be remunerated during this advance period at zero per cent or the deposit facility rate, whichever is higher.**]**

Textual Amendments

F1 Substituted by Decision (EU) 2020/1264 of the European Central Bank of 8 September 2020 amending Decision (EU) 2019/1743 of the European Central Bank on the remuneration of holdings of excess reserves and of certain deposits (ECB/2020/38).

Article 3

Repeal

1 Decision ECB/2014/23 is hereby repealed.

2 References to the repealed Decision shall be construed as references to this Decision and shall be read in accordance with the correlation table set out in Annex II.

Article 4

Entry into force

This Decision shall enter into force on the day following that of its publication in the *Official Journal of the European Union*. It shall apply from the seventh reserve maintenance period of 2019 starting on 30 October 2019.