EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 23 October 2006

at the request of Latvijas Banka
on a draft regulation for the use of Latvijas Banka's monetary policy instruments

(CON/2006/49)

Introduction and legal basis

On 28 September 2006 the European Central Bank (ECB) received a request from Latvijas Banka for an opinion on a draft regulation for the use of Latvijas Banka's monetary policy instruments (hereinafter the 'draft regulation').

The ECB's competence to deliver an opinion is based on Article 105(4) of the Treaty establishing the European Community and the Article 2(2) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions[1], as the draft regulation relates to monetary policy instruments. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft regulation

The main objective of the draft regulation is to implement similar valuation and operational principles for all Latvijas Banka's monetary policy instruments and to achieve further harmonisation between the monetary policy operations of Latvijas Banka and the Eurosystem. The draft regulation will replace and consolidate a number of current regulations governing Latvijas Banka's monetary policy operations.

2. General observations

2.1 Although non-participating Member States retain their powers in the field of monetary policy, it is nevertheless beneficial for them to gradually achieve consistency with Eurosystem standards so that credit institutions operating in their territories can become acquainted with the requirements that will apply once these Member States have adopted the euro. Such gradual harmonisation prior to the adoption of the euro will assist a smooth integration of the national central bank into the

1 OJ L 189, 3.7.1998, p. 42.

Eurosystem. In this regard, the draft regulation will contribute to the alignment of the Latvian framework for the use of monetary policy instruments with that of the Eurosystem.

2.2 Nevertheless, the ECB would like to draw Latvijas Banka's attention to some important remaining differences between the Eurosystem's requirements and Latvia's monetary policy framework that will need to be eliminated before Latvia adopts the euro.

3. Specific observations

3.1 The Latvian definition of 'counterparties' is narrower than that used in the Eurosystem. This is due to the inclusion of certain operational criteria as a requirement for all counterparties in Latvia, such as the requirement for counterparties to participate in the securities settlement system, whereas the Eurosystem allows different operational criteria to apply for different types of monetary policy operations.

Participation in the securities settlement system, or the requirement to have an own safe-custody/pledge/securities account, are important operational criteria, but might not be necessary for participation in certain operations, such as having access to a deposit facility or for participation in tenders for fixed-term deposits etc.

3.2 With regard to plausibility checks for bids submitted by counterparties, Article 2.1.10 of the draft regulation provides that where the aggregate amount of a counterparty's bid for a tender exceeds the total allotment established by Latvijas Banka, Latvijas Banka will discard all the counterpart's bids for that tender. Section 5.1.4 of the Eurosystem's General Documentation[2] states that national central banks may also discard any bid which is below the minimum bid amount or which is below any minimum or above any maximum accepted interest rate/price/swap point. Furthermore, the national central banks may discard bids which are incomplete or which do not follow the pro forma example.

2 'The implementation of monetary policy in the euro area: General Documentation on Eurosystem monetary policy instruments and procedures' annexed to Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem, OJ L 310, 11.12.2000, p. 1. Guidelines as amended by Guideline ECB/2005/2 (OJ L 111, 2.5.2005, p. 1).

3.3 At present, Latvijas Banka accepts only fixed income securities as collateral for its monetary policy operations. The Eurosystem, however, recognises a wider circle of assets as eligible collateral: asset-backed securities, credit claims and retail mortgage-backed debt instruments are also included in the Eurosystem's single list of eligible collateral. The ECB stresses the importance of preparing the legal and operational framework necessary to enable Latvijas Banka to admit such assets as collateral by the time Latvia adopts the euro.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 23 October 2006.

[signed]

The President of the ECB

Jean-Claude TRICHET