EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 1 February 2011

on amendments to the national monetary policy operations framework with a view to further harmonising it with the Eurosystem

(CON/2011/7)

Introduction and legal basis

On 10 December 2010 the European Central Bank (ECB) received a request from Lietuvos bankas for an opinion on the recast of the Regulations on selection, valuation and publishing of eligible assets used as underlying assets in credit operations of Lietuvos bankas (hereinafter the 'draft regulations').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and 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 regulations relate to instruments of monetary policy in a Member State whose currency is not the euro. 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 regulations

The main objective of the draft regulations is to further harmonise the monetary policy operations framework of Lietuvos bankas with that of the Eurosystem by: (a) separating the eligibility criteria applicable to the assets used for collateralisation of intraday credit in euro and of all other credit operations of Lietuvos bankas, (b) specifying credit standards for eligible assets, (c) referring in its monetary policy framework to the Eurosystem monetary policy framework.

2. General observations

2.1 Although Member States whose currency is not the euro retain their powers in the field of monetary policy, it is beneficial for them to gradually achieve consistency with the operational framework for the implementation of the ECB's monetary policy 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 contribute to the smooth integration of the national central bank into the Eurosystem.

1 OJ L 189, 3.7.1998, p. 42.

2.2 The ECB has previously commented on other Lithuanian regulations on monetary policy instruments, in particular the Lithuanian minimum reserves regime[2]. In its opinions, the ECB emphasised the need to further align the Lithuanian minimum reserves regime with Eurosystem standards, including the fact that the Lithuanian credit unions will also be subject to the Eurosystem's minimum reserves requirements when Lithuania adopts the euro. The ECB observes that all comments previously made on the Lithuanian minimum reserves regime are still valid.

2.3 The ECB welcomes the provisions of the draft regulations that will contribute to the alignment of the monetary policy operations framework of Lietuvos bankas with that of the Eurosystem.

3. Specific observations

3.1 *Implications of the draft regulations for the selection of assets eligible for collateralisation of intraday credit operations in TARGET2 by Lietuvos bankas as a connected central bank*

3.1.1 Lietuvos bankas concluded an agreement with the Eurosystem central banks on connection to the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2)[3]. This agreement specifies, *inter alia*, that the connected central banks will comply with Guideline ECB/2007/2 of 26 April 2007 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2)[4], subject to any mutually agreed appropriate qualifications and modifications.

3.1.2 Lietuvos bankas, as a connected central bank, may provide intraday credit in TARGET2 to its participants under certain conditions. Such intraday credit must be collateralised by eligible assets which meet the same quality standards and are subject to the same valuation and risk control rules as those prescribed for eligible collateral for Eurosystem monetary policy operations[5]. Therefore, in providing intraday credit in TARGET2 and selecting the eligible collateral in this context, Lietuvos bankas is bound by the Eurosystem monetary policy framework as set out in Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem[6] (hereinafter the 'General Documentation').

3.2 *Further specification of the rules applicable to intraday credit in euro*

The draft regulations apply to all credit operations of Lietuvos bankas, including intraday credit in euro. Since Lietuvos bankas is bound by the General Documentation only as regards the collateralisation of intraday credit in euro in TARGET2, the ECB welcomes the specification in the

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2 See Opinions CON/2005/8 and CON/2008/66. All opinions are published on the ECB's website at www.ecb.europa.eu.

3 The national central banks of non-participating Member States may only connect to TARGET2 if they conclude an agreement with the Eurosystem central banks, see Article 4 of Guideline ECB/2007/2.

4 OJ L 237, 8.9.2007, p. 1.

5 Paragraph 4 of Annex III of Guideline ECB/2007/2 provides: 'Intraday credit shall be based on eligible collateral and granted by means of collateralised intraday overdrafts and/or intraday repurchase transactions in compliance with the additional minimum common features (including the events of default therein listed, as well as their respective consequences) that the Governing Council specifies with respect to Eurosystem monetary policy operations. Eligible collateral shall consist of the same assets and instruments as eligible assets for Eurosystem monetary policy operations, and shall be subject to the same valuation and risk control rules as those laid down in Annex I to Guideline ECB/2000/7'.

6 OJ L 310, 11.12.2000, p. 1.

draft regulations of (a) the relevant eligibility criteria[7] to be applied to the assets used for collateralisation of intraday credit in euro in TARGET2, and (b) the relevant eligibility criteria to be applied to the assets used for collateralisation of other credit operations of Lietuvos bankas. However, the ECB recommends further specification also for other rules, in particular as regards credit standards including rules for credit assessment and guarantees, and risk control measures including the relevant valuation haircuts.

3.3 *Additional currency valuation haircut*

As regards the additional 2% valuation haircut applicable to the valuation of securities denominated in litai which are used to collateralise Lietuvos bankas's intraday credit in euro[8], the ECB agrees with this additional haircut. Close cooperation with the ECB on an annual basis will ensure also in the future that the currency risk is appropriately addressed and takes into account changing circumstances in the markets and other possible factors.

3.4 *References to the Eurosystem monetary policy framework*

Some provisions of the draft regulations replicate provisions from the General Documentation without any additional qualification. Other provisions from the General Documentation are qualified to reflect particularities of the Lithuanian market. Such qualifications include, *inter alia*, acceptance of securities registered exclusively with the Lithuanian central securities depository[9] and of guarantees which are regulated exclusively under Lithuanian law[10]. There are also several direct references to the General Documentation.

The ECB recommends: (a) using references to the General Documentation where the aim of the specific provision is to replicate the General Documentation's provisions without any additional qualification, and (b) replicating the General Documentation's provisions in the national rules where they are further qualified. In any case, it must be ensured that (a) there is clarity as to which rules of the General Documentation apply and where there is divergence from such rules, and (b) the national rules applicable to the collateralisation of the Lietuvos bankas's intraday credit in euro in TARGET2 meet the minimum requirements established by the General Documentation. This means that any divergence from the rules of the General Documentation is only permissible if it contains more restrictive eligibility criteria.

7 Including type of asset, acceptable markets, currency of denomination, settlement procedures, type of/place of establishment of the issuer/guarantor, place of issue.

8 Paragraph 19 of the draft regulations.

9 Paragraph 6.8 of the draft regulations.

10 Paragraph 11.4 of the draft regulations.

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

Done at Frankfurt am Main, 1 February 2011.

[signed]

The President of the ECB

Jean-Claude TRICHET