EUROPEAN CENTRAL BANK

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AMENDMENTS TO THE RISK CONTROL FRAMEWORK FOR TIER ONE AND TIER TWO ELIGIBLE ASSETS

This document details the amendments to the risk control framework for tier one and tier two assets eligible for collateralising Eurosystem credit operations (i.e. intraday liquidity and monetary policy operations). These changes will take effect upon implementation by the national central banks, which is envisaged for the first quarter of 2004.

CLASSIFICATION OF ELIGIBLE ASSETS

Liquidity categories for tier one assets

Eligible tier one assets are to be allocated to one of four categories of decreasing liquidity[1]:

Category I	***Category II***	***Category III***	***Category IV***
Central government securities	Local and regional government securities	Traditional *Pfandbrief*-style instruments	Asset-backed securities
Debt securities issued by central banks[2]	Jumbo *Pfandbrief*-style instruments	Credit institution securities	
	Supranational securities	Corporate securities	
	Agencies securities		

Liquidity groups for tier two assets

The classification of tier two eligible assets remains unchanged and distinguishes between the following four liquidity groups of eligible assets:

1 Detailed information on the content of each liquidity category will be made available during the last quarter of 2003.

2 Debt certificates issued by the ECB and by the national central banks prior to the adoption of the euro in their respective Member State were classified in liquidity category I (highest liquidity) together with central government securities.

1. marketable debt instruments with limited liquidity;
2. debt instruments with restricted liquidity and special features;
3. equities;
4. non-marketable debt instruments, including trade bills, bank loans and mortgage-backed promissory notes.

NEW HAIRCUT SCHEDULES INCLUDING THE CHANGE IN THE MATURITY BUCKETS

Valuation haircut schedule for eligible tier one assets in relation to fixed coupon and zero coupon instruments

	Liquidity Categories							
	Category I		Category II		Category III		Category IV	
Residual maturity	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon
0-1 year	0.5 %	0.5 %	1 %	1 %	1.5 %	1.5 %	2 %	2 %
1-3 years	1.5 %	1.5 %	2.5 %	2.5 %	3 %	3 %	3.5 %	3.5 %
3-5 years	2.5 %	3 %	3.5 %	4 %	4.5 %	5 %	5.5 %	6 %
5-7 years	3 %	3.5 %	4.5 %	5 %	5.5 %	6 %	6.5 %	7 %
7-10 years	4 %	4.5 %	5.5 %	6.5 %	6.5 %	8 %	8 %	10 %
> 10 years	5.5 %	8.5 %	7.5 %	12 %	9 %	15 %	12 %	18 %

Valuation haircut schedules for eligible tier two assets

Residual maturity	*Marketable debt instruments with limited liquidity*		*Debt instruments with restricted liquidity and special features:*	
	fixed coupon	*zero coupon*	*fixed coupon*	*zero coupon*
0-1 year	2 %	2 %	4 %	4 %
1-3 years	3.5 %	3.5	8 %	8 %
3-5 years	5.5 %	6 %	15 %	16 %
5-7 years	6.5 %	7 %	17 %	18 %
7-10 years	8 %	10 %	22 %	23 %
> 10 years	12 %	18 %	24 %	25 %

Equities

A unique haircut schedule of 22 % is to be applied to all eligible equities.

Non-marketable debt instruments

- For trade bills with a maturity up to six months a haircut of 4 % is to be applied.
- For bank loans with a maturity up to six months a haircut of 12 % is to be applied. A haircut of 22 % is to be applied in the case of bank loans with a maturity between six months and two years.
- For mortgage-backed promissory notes the haircut level is 22 %.

Haircuts of inverse floaters in both tiers and all liquidity classes

Residual maturity	*Inverse floaters coupon*
0-1 year	2 %
1-3 years	7 %
3-5 years	10 %
5-7 years	12 %
7-10 years	17 %
> 10 years	25 %

OTHER CHANGES TO THE RISK CONTROL FRAMEWORK

- With regard to the haircut schedule for floating rate instruments, a distinction is no longer to be made between instruments with pre-fixed coupons and instruments with post-fixed coupons. The minimum haircut applied to floating rate instruments will be the haircut corresponding to the zero-to-one-year maturity bucket of the liquidity category or group to which the instrument belongs.
- It has been decided to discontinue the application of initial margins on the liquidity provided in a reverse transaction and to reduce the trigger point level used in margin calls from 1.0 % to 0.5 %, bringing it into line with the lowest level of protection provided in the new framework (0 % initial margin and 0.5 % valuation haircut).