

TARGETED LONGER-TERM REFINANCING OPERATIONS

Updated modalities

Following a decision by the ECB's Governing Council, the Eurosystem will conduct eight targeted longer-term refinancing operations (TLTROs) with the characteristics described below. This document updates the document entitled "Modalities of the Targeted long-term refinancing operations" annexed to the Press Release "ECB announces further details of the targeted longer-term refinancing operations" published on 3 July 2014. The Decision ECB/2014/34 of 29 July 2014 on measures relating to targeted longer-term refinancing operations (the 'ECB Decision') defines the conditions for participation in the TLTROs and other relevant operational aspects of the TLTROs.

1 PARTICIPATION IN THE TLTROS

Eligible Eurosystem counterparties may participate in a TLTRO on an individual basis. In addition, euro area credit institutions may form a "TLTRO group" and participate in a TLTRO through one member of the TLTRO group, the "lead institution", which has to be an eligible Eurosystem counterparty. The restrictions and conditions for participation by counterparties¹ in the TLTROs are laid down in the ECB Decision.

2 CALCULATION OF BORROWING LIMITS

A counterparty participating in a TLTRO, either individually or as the lead institution of a TLTRO group, will be subject to borrowing limits, in accordance with the ECB Decision. The calculated borrowing limits will be rounded up to the next multiple of EUR 10,000.

The borrowing limits (and possible mandatory early repayment – see below) applicable to a counterparty participating individually in the TLTROs will be calculated on the basis of the outstanding amounts of eligible loans and eligible net lending to euro area non-financial corporations and households, excluding loans to households for house purchase, granted by the

¹ References to a "counterparty" should be understood as applying to individual counterparties or TLTRO groups.

individual counterparty.² The borrowing limits (and possible mandatory early repayment) applicable to the lead institution of a TLTRO group will be calculated on the basis of the outstanding amounts of eligible loans and eligible net lending granted by all members of the TLTRO group in aggregate.

Let $C_k \geq 0$ be the borrowing of a counterparty in TLTRO k (with $k = 1, \dots, 8$). The initial borrowing allowance for this counterparty (IA) is:

$$IA = 0.07 \cdot OL$$

Here, OL is the amount outstanding on 30 April 2014 of eligible loans granted by the counterparty. In the first two TLTROs, the following constraint has to be respected:

$$C_1 + C_2 \leq IA$$

This means that total borrowing in the first two TLTROs cannot exceed the amount of the initial allowance.

Let NL_m be the eligible net lending of a counterparty in calendar month m . Let

$$\overline{NL} = \frac{1}{12} (NL_{May2013} + NL_{June2013} + \dots + NL_{April2014})$$

be the average eligible net lending of this counterparty from May 2013 to April 2014.

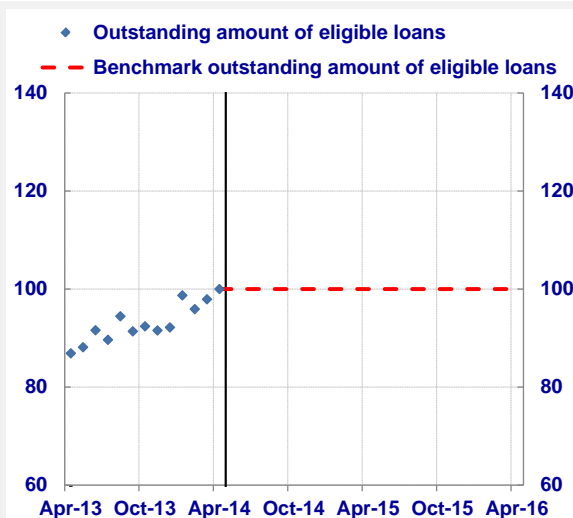
Denote by BE_k a counterparty's benchmark for TLTRO k (with $k = 3, \dots, 8$, i.e. the TLTROs to be conducted between March 2015 and June 2016).

If $\overline{NL} \geq 0$ (i.e. if the counterparty had positive or zero eligible net lending in the twelve months to 30 April 2014), or if the counterparty was established only after 1 May 2013, then $BE_k = 0$ for all TLTROs $k = 3, \dots, 8$. This is illustrated in Chart 1, which shows the case of a counterparty that has increased its outstanding amount of eligible loans between 30 April 2013 and 30 April 2014 (i.e. that had positive eligible net lending from May 2013 to April 2014). In this case, the benchmark is set at zero eligible net lending, which means that the benchmark

² 'Eligible loans' means loans to non-financial corporations and households (including non-profit institutions serving households) resident in the euro area. 'Outstanding amounts of eligible loans' means outstanding eligible loans on the balance sheet, excluding eligible loans securitised or otherwise transferred without derecognition from the balance sheet. 'Eligible net lending' means gross lending in the form of eligible loans net of repayments of outstanding amounts of eligible loans during a specific period. These definitions are further detailed in the ECB Decisions and the document "*Targeted Longer-Term Refinancing Operations: Updated guidelines for completing the reporting template*".

based on the outstanding amount of eligible loans remains unchanged at the level reached on 30 April 2014.³

Chart 1 Benchmark for a counterparty with positive eligible net lending in the twelve months to 30 April 2014 (*index, April 2014 = 100*)



If $\overline{NL} < 0$ (i.e. if the counterparty had negative eligible net lending in the twelve months to 30 April 2014), then:

$$BE_k = \overline{NL} \times n_k,$$

where n_k is defined as follows:

<i>k</i>	3	4	5	6	7	8
<i>Month of TLTRO</i>	Mar. 2015	Jun. 2015	Sept. 2015	Dec. 2015	Mar. 2016	Jun. 2016
<i>Allotment reference month⁴</i>	Jan. 2015	Apr. 2015	Jul. 2015	Oct. 2015	Jan. 2016	Apr. 2016
<i>n_k</i>	9	12	12	12	12	12

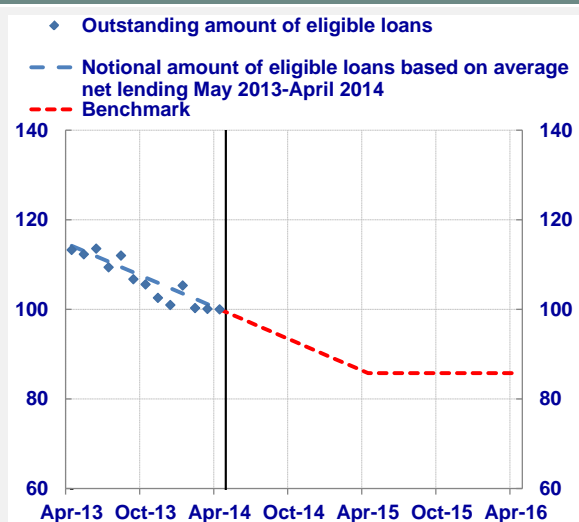
This means that the benchmark for each TLTRO allotment reference month will be equal to the average monthly eligible net lending achieved in the twelve months to 30 April 2014 (\overline{NL})

³ For illustration purposes, the interpretation of the benchmark in terms of outstanding amounts provided in this annex assumes that there are no “adjustments to the amounts outstanding” to be made as defined in the TLTRO reporting template and reporting instructions.

⁴ The allotment reference month of TLTRO *k* is the most recent month for which net lending data is available for TLTRO *k* (for an operation conducted in calendar month *m*, it will be data for the month two calendar months earlier).

multiplied by the number of months elapsed between 30 April 2014 and the end of the allotment reference month. This, however, will only apply for allotment reference months up to and including April 2015. Thereafter, the benchmark net lending will remain unchanged at the value reached in April 2015. This is illustrated in Chart 2, which shows the case of a counterparty that decreased its outstanding amount of eligible loans between 30 April 2013 and 30 April 2014 (i.e. that had negative eligible net lending from May 2013 to April 2014). In this case, the benchmark based on the outstanding amount of eligible loans is derived by using the average monthly eligible net lending achieved in the twelve months to 30 April 2014 to extend to 30 April 2015 the benchmark based on the outstanding amount of eligible loans as at 30 April 2014. This extension, however, ends on 30 April 2015. Thereafter, the benchmark based on the outstanding amount of eligible loans remains constant.

Chart 2 Benchmark for a counterparty with negative eligible net lending in the twelve months to 30 April 2014 (*index, April 2014 = 100*)



The basis for calculating the additional borrowing allowance for a counterparty in TLTRO k is:

$$AA_k = 3 \times (CNL_k - BE_k),$$

where CNL_k is defined as follows:

<i>k</i>	<i>Month of TLTRO</i>	<i>Allotment reference month</i>	<i>CNL_k</i>
3	Mar. 2015	Jan. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jan2015}$
4	June 2015	Apr. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Apr2015}$
5	Sept. 2015	July 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jul2015}$
6	Dec. 2015	Oct. 2015	$NL_{May2014} + NL_{June2014} + \dots + NL_{Oct2015}$
7	Mar. 2016	Jan. 2016	$NL_{May2014} + NL_{June2014} + \dots + NL_{Jan2016}$
8	June 2016	Apr. 2016	$NL_{May2014} + NL_{June2014} + \dots + NL_{Apr2016}$

For the last six TLTROs $k = 3, \dots, 8$ (i.e. for all TLTROs in which additional allowances can be claimed), the following constraint has to be respected:⁵

$$C_k \leq \max\{0, AA_k - \sum_{j=3}^{k-1} C_j\}$$

This means that in each TLTRO k , the counterparty cannot borrow more than the higher number of (i) zero and (ii) three times the amount by which its eligible net lending granted between 30 April 2014 and the respective allotment reference month (CNL_k) exceeds its benchmark in that allotment reference month (BE_k), less any amounts previously borrowed in TLTROs that take place in the period from March 2015.

3 CALCULATION OF THE MANDATORY EARLY REPAYMENTS

Counterparties that have borrowed in the TLTROs but whose eligible net lending in the period from 1 May 2014 to 30 April 2016 is below the benchmark will be required to pay back their borrowing in September 2016, in accordance with the ECB Decision.

The mandatory early repayment in September 2016 of a counterparty is:

$$MR = \sum_{k=1}^8 C_k, \text{ if } BE_8 > CNL_8$$

This means that if the total eligible net lending granted by the counterparty in the period from 1 May 2014 to 30 April 2016 is lower than the benchmark for the allotment reference month of

⁵ For the TLTRO to be conducted in March 2015 ($k=3$), the constraint is $C_3 \leq \max\{0, AA_3\}$.

April 2016, then the full amount of borrowing in all TLTROs must be repaid in September 2016.

If $BE_8 \leq CNL_8$ but $\sum_{j=3}^8 C_j > AA_8$, then in September 2016 the counterparty has to repay

$(\sum_{j=3}^8 C_j) - AA_8$ from the last six TLTROs. In other words, if a counterparty's total borrowings in

the TLTROs conducted from March 2015 to June 2016 ($\sum_{j=3}^8 C_j$) exceed the basis for the

calculation of the additional allowance for the allotment reference month of April 2016 (AA_8),

then the amount of this excess must be repaid in September 2016.

4 REPORTING OBLIGATIONS OF COUNTERPARTIES

A counterparty interested in participating in a TLTRO must submit the completed reporting template to its home NCB in accordance with the ECB Decision.

5 ELIGIBLE COLLATERAL

In the TLTROs, the same Eurosystem collateral rules apply (in relation to eligibility criteria, valuation, haircuts and rules on the use of eligible assets) as in other refinancing operations.

6 DATES AND DEADLINES

The timetable below shows dates and deadlines in 2014 and the most important dates and deadlines after the end of 2014. All other dates and deadlines will be published at a later stage.

	First TLTRO	Second TLTRO
Lead institutions apply to their respective home NCB for TLTRO group treatment	By 8 Aug 2014, 3.30 p.m. ⁶ (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2014)	
NCBs provide confirmation to lead institutions regarding TLTRO group treatment	On 25 Aug 2014, by 3.30 p.m. at the latest	
Counterparties interested in participating and those that participated in previous TLTROs send completed reporting templates to NCBs	By 28 Aug 2014, 3.30 p.m. Reporting period: 1 May 2013 to 30 April 2014 Data vintage used for BSI transmission with July 2014 as the reference month	By 20 Nov 2014, 3.30 p.m. Reporting period: 1 May 2014 to 31 October 2014 Data vintage used for BSI transmission with October 2014 as the reference month
NCBs inform counterparties about their borrowing limits	On 11 Sept 2014, by 3.30 p.m. at the latest	On 4 Dec 2014, by 3.30 p.m. at the latest
Announcement of the TLTRO	16 Sep 2014 (3.30 p.m.)	09 Dec 2014 (3.30 p.m.)
Deadline for counterparties to submit bids to NCBs	17 Sept 2014 (9.30 a.m.)	10 Dec 2014 (9.30 a.m.)
Allotment	18 Sept 2014 (11.15 a.m.)	11 Dec 2014 (11.15 a.m.)
Settlement	24 Sept 2014	17 Dec 2014
Counterparties send updated reporting templates (for calculating mandatory early repayments) to NCBs	By 3.30 p.m. on 17 August 2016 Reporting period: 1 May 2014 to 30 April 2016 (Data vintage will be published later)	
NCBs inform counterparties about mandatory early repayments	On 31 Aug 2016, by 3.30 p.m. at the latest	
Settlement of mandatory early repayments	29 Sept 2016	
Settlement of first voluntary early repayment	28 Sept 2016	21 Dec 2016
Maturity	26 Sept 2018	

⁶ All times in the timetable are Frankfurt times.