

Press release

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ECB takes steps to mitigate impact of possible rating downgrades on collateral availability

- ECB to grandfather until September 2021 eligibility of marketable assets used as collateral in Eurosystem credit operations falling below current minimum credit quality requirements
- Appropriate haircuts will apply for assets that fall below the Eurosystem minimum credit quality requirements
- Decision reinforces broader package of collateral easing measures adopted by the Governing Council on 7 April 2020, which will also remain in place until September 2021
- ECB may decide further measures, if needed, to continue ensuring the smooth transmission of its monetary policy in all jurisdictions of the euro area

The Governing Council of the European Central Bank (ECB) today adopted temporary measures to mitigate the effect on collateral availability of possible rating downgrades resulting from the economic fallout from the coronavirus (COVID-19) pandemic. The decision complements the broader collateral easing package that was announced on 7 April 2020. Together these measures aim to ensure that banks have sufficient assets that they can mobilise as collateral with the Eurosystem to participate in the liquidity-providing operations and to continue providing funding to the euro area economy.

Specifically, the Governing Council decided to grandfather the eligibility of marketable assets and the issuers of such assets that fulfilled minimum credit quality requirements on 7 April 2020 in the event of a deterioration in credit ratings decided by the [credit rating agencies accepted in the Eurosystem](#) as long as the ratings remain above a certain credit quality level. By doing so, the Governing Council aims to avoid potential procyclical dynamics. This would ensure continued collateral availability, which is crucial for banks to provide funding to firms and households during the current challenging times.

The following decisions have been taken:

- Marketable assets and issuers of these assets that met the minimum credit quality requirements for collateral eligibility on 7 April 2020 (BBB- for all assets, except asset-backed

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securities (ABSs)) will continue to be eligible in case of rating downgrades, as long as their rating remains at or above credit quality step 5 (CQS5, equivalent to a rating of BB) on the Eurosystem harmonised rating scale. This ensures that assets and issuers that were investment grade at the time the Governing Council adopted the package of collateral easing measures remain eligible even if their rating falls two notches below the current minimum credit quality requirement of the Eurosystem.

- To be grandfathered, the assets need to continue to fulfil all other existing collateral eligibility criteria.
- Future issuances from grandfathered issuers will also be eligible provided they fulfil all other collateral eligibility criteria.
- Currently eligible covered bond programmes will also be grandfathered, under the same conditions.
- Currently eligible ABSs to which a rating threshold in the general framework of CQS2 applies (equivalent to a rating of A-) will be grandfathered as long as their rating remains at or above CQS4 (equivalent to a rating of BB+).
- Assets that fall below the minimum credit quality requirements will be subject to haircuts based on their actual ratings.

Non-marketable assets are not part of the scope of the temporary grandfathering. All measures will enter into effect as soon as the relevant legal acts enter into force. The measures will apply until September 2021 when the first early repayment of the third series of targeted longer-term refinancing operations (TLTRO-III) takes place. The same end date will also apply to the collateral easing measures announced on 7 April 2020.

The ECB may decide, if and when necessary, to take additional measures to further mitigate the impact of rating downgrades, particularly with a view to ensuring the smooth transmission of its monetary policy in all jurisdictions of the euro area.

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