



BANK OF GREECE
EUROSYSTEM

MONETARY POLICY COUNCIL ACT No. 61/6.12.2006

Re: Amendments to Monetary Policy Council (MPC) Act 54/27 February 2004, as amended, regarding monetary policy instruments and procedures of the Bank of Greece

THE MONETARY POLICY COUNCIL, having regard to:

- a) Articles 2, 35A and 55 of the Statute of the Bank of Greece;
- b) Monetary Policy Council Act 54/27 February 2004 re: "Monetary policy instruments and procedures of the Bank of Greece"; as amended by MPC Acts 57/24 May 2005 and 60/11 April 2006;
- c) Guideline ECB/2000/7 of the European Central Bank on monetary policy instruments and procedures of the Eurosystem, as amended by Guideline ECB/2006/12;
- d) Guideline ECB/2001/3 of the European Central Bank on a Trans-European Automated Real-time Gross Settlement Express Transfer system (TARGET), as amended;
- e) the Statute of the European System of Central Banks and of the European Central Bank;

HAS DECIDED

to adopt the following amendments to the relevant provisions of Monetary Policy Council Act 54/27 February 2004, as amended:

Part 1: Collateral framework

Section V of MPC Act 54, as amended, is replaced as follows:

"Section V: Collateral

A. Definitions and eligibility criteria

1. The Bank of Greece shall accept as collateral for any type of monetary policy operations, as well as for the provision of intraday credit, assets that fulfil the

eligibility criteria laid down in the relevant Guidelines of the European Central Bank (ECB) regarding instruments and procedures of the single monetary policy (latest Guideline ECB/2006/12, Annex I, Chapters 6.2.1 and 6.2.2).¹

2. Eligible assets shall be distinguished into marketable and non-marketable. A list of marketable eligible assets is published by the ECB on its website (www.ecb.int). Non-marketable eligible assets must fulfil the uniform Eurosystem-wide eligibility criteria established by the ECB, but no list is published. Also, no list is published for eligible marketable debt securities issued by non-financial corporations without a rating by an external credit assessment institution (ECAI).²

3. Ordinary (non-convertible) bonds in the sense of Article 6 of Law 3156/2003 not traded on a regulated market and issued as physical securities in bearer form and acquired, for the entire amount of the issue, by a credit institution shall be deemed to fall into the category of non-marketable assets.

4. In the particular case of credit claims, the following additional legal requirements have to be met. These relate to:

- *the verification of the existence of credit claims;*
- *the notification of the debtor about the mobilisation of the credit claim or the registration of such mobilisation;*
- *the absence of restrictions related to banking secrecy and confidentiality;*
- *the absence of restrictions on the mobilisation of the credit claim;*
- *the absence of restrictions on the realisation of the credit claim.*

5. The minimum size threshold at the time of submission of a credit claim to the Bank of Greece as collateral is set at EUR 500,000.

6. The verification of the existence of credit claims through the procedure specified in the applicable ECB Guidelines on instruments and procedures of the single monetary policy (latest Guideline ECB/2006/12, Annex I, Annex 7) is entrusted to the Department for the Supervision of Credit and Financial Institutions of the Bank of Greece. More detailed provisions regarding the fulfilment of the criteria shall be contained in the Financing and Collateral Agreement between the Bank of Greece and the counterparty.

7. The acceptance and use of non-marketable assets as collateral shall be subject to fees, in amounts specified by the Bank of Greece.

¹ Assets included in the current tier two that do not qualify under the eligibility criteria for the single framework for eligible collateral will remain eligible until 31 May 2007, and the associated haircuts for marketable tier two assets (as set out in the General Documentation published in February 2005) continue to apply until that date. Also, units of French *fonds communs de créances* (FCCs) incorporated in the tier one list will remain eligible for a transitional period until 31 December 2008.

² For these debt instruments, the eligibility status is dependent on the credit assessment of the credit assessment source chosen by the respective counterparty in accordance with the ECAF rules applicable to credit claims.

8. For marketable assets issued or guaranteed by entities established in non-EEA G-10 countries³ or for asset-backed securities, counterparties are required to provide adequate, in the judgement of the Bank of Greece, information and data, as well as a legal confirmation and/or legal opinion, as appropriate, so as to enable the assessment of the eligibility of the assets in accordance with the rules applicable within the Eurosystem. The Bank of Greece may specify the content and form of such legal confirmation and legal opinion.

9. Irrespective of the fact that a marketable or non-marketable asset fulfils all eligibility criteria, a counterparty may not submit as collateral any asset issued or guaranteed by itself or by any other entity with which it has close links. For the purposes of this Act, “close links” shall mean a situation in which the counterparty is linked to an issuer/debtor/guarantor of eligible assets by reason of the fact that:

- (i) the counterparty owns 20% or more of the capital of the issuer/debtor/guarantor;
- (ii) one or more undertakings in which the counterparty owns the majority of the capital own 20% or more of the capital of the issuer/debtor/guarantor;
- (iii) the counterparty and one or more undertakings in which the counterparty owns the majority of the capital together own 20% or more of the capital of the issuer/debtor/guarantor;
- (iv) the issuer/debtor/guarantor owns 20% or more of the capital of the counterparty;
- (v) one or more undertakings in which the issuer/debtor/guarantor owns the majority of the capital own 20% or more of the capital of the counterparty;
- (vi) the issuer/debtor/guarantor and one or more undertakings in which the issuer/debtor/guarantor owns the majority of the capital together own 20% or more of the capital of the counterparty;
- (vii) a third party owns both the majority of the capital of the counterparty and the majority of the capital of the issuer/debtor/guarantor, either directly or indirectly, through one or more undertakings in which that third party owns the majority of the capital.

10. The above provision on close links shall not apply to:

- (a) close links between the counterparty and the public authorities of EEA countries (including the case where the public authority is a guarantor of the issuer/debtor/guarantor);
- (b) covered bank bonds issued in accordance with the criteria set out in Article 22(4) of Directive 85/611/EEC, as amended;
- (c) cases in which debt instruments are protected by specific legal safeguards comparable to those for the instruments given under (b).

11. In the event that a counterparty is using assets that fall under any of the cases of paragraph (9) above, it is obliged to immediately notify the Bank of Greece thereof. The assets are valued at zero on the next valuation date and a margin call may be triggered in accordance with paragraph D.2 of this Section. In addition, the counterparty has to remove the asset on the earliest possible date.

³ At the time when this Act is issued, these countries are the United States, Canada, Japan and Switzerland.

12. Furthermore, the Bank of Greece reserves the right not to accept as collateral, in spite of their eligibility, any assets that fall due before the maturity date of the monetary policy operation for which they are being used as underlying assets.

13. The Bank Greece may at its discretion decide not to accept as collateral any debt instruments with an income flow (e.g. a coupon payment) occurring in the period up to the maturity date of the monetary policy operation for which they are being used as underlying assets.

14. All eligible assets can be used for all monetary policy operations and for intraday credit, with the exception of outright transactions, in which only marketable assets can be used.

B. Assessing the credit quality of assets

The credit quality of eligible assets is assessed using the Eurosystem credit assessment framework (ECAF), as described in ECB Guidelines regarding the instruments and procedures of the single monetary policy (latest Guideline ECB/2006/12, Annex I, Chapter 6.3).

2. In order to be accepted as collateral for the Eurosystem's monetary policy operations, assets must fulfil high credit standards. In the assessment of the credit standard of eligible assets, the Eurosystem takes into account credit assessment information from credit assessment systems belonging in one of four sources, namely: a) external credit assessment institutions (ECAIs), b) NCBs' in-house credit assessment systems (ICASs), c) counterparties' internal ratings-based (IRB) systems or d) third-party providers' rating tools (RTs). In order to ensure the consistency, accuracy and comparability of the four credit assessment sources used in the ECAF, the Eurosystem has established acceptance criteria for each of these sources, laid down in the ECB Guidelines on the instruments and procedures of the single monetary policy (latest Guideline ECB/2006/12, Annex I, Chapter 6.3.4.). The ECB publishes on its website a list of accepted credit assessment systems belonging in sources a), b) and d).

3. Counterparties may choose to use any of the above four sources. In the case of source b), counterparties may use the ICAS of another Eurosystem NCB.

4. A counterparty intending to use an IRB system has to ask for the permission of the Bank of Greece, by filing a request, together with the documents and data specified by the Bank of Greece, in accordance with the requirements of Guideline ECB/2006/12, Annex I, Chapter 6.3.4.

5. The credit standard of credit claims is established in accordance with the rules laid down by the Eurosystem and contained in ECB Guidelines on the instruments and procedures of the single monetary policy (latest Guideline ECB/2006/12, Annex I, Chapter 6.3.3).

6. The minimum accepted level of credit quality ("credit quality threshold") is defined in terms of a "single A" credit assessment.⁴

7. In the case of credit claims, counterparties have to select one main credit assessment source and stick to it for a minimum period of one year. Furthermore, they shall select one system from the selected credit assessment source.⁵ Counterparties wishing to use more than one credit assessment source within the minimum period of one year or to change credit assessment sources after the minimum period have to submit a reasoned written request to the Bank of Greece. The Bank of Greece reserves the right to reject the request.

8. Counterparties must inform the Bank of Greece promptly of any credit event, including a delay of payments by the submitted debtors, that is known to the counterparty and, if necessary, withdraw or replace the assets. Furthermore, counterparties are responsible for ensuring that they use the most recent credit assessment updates available from their selected credit assessment system or source for the debtors⁶ or guarantors of submitted assets.

9. The Bank of Greece reserves the right to decide whether an issue, an issuer/debtor or guarantor fulfils the required minimum credit standards and to exclude assets on the basis of any relevant information available to it.

C. Valuation of collateral

1. The Bank of Greece, for the purpose of managing the collateral provided by counterparties for its credit operations, shall apply, as a rule, a pooling system.⁷ This system involves the creation of an adequate collateral pool for securing the total of financing extended through reverse operations, the marginal lending facility or intraday credit. At the same time, the Bank of Greece reserves the right to apply, on an ad hoc basis, an earmarking⁸ system for managing the collateral provided by the counterparties in the form of a pledge on eligible marketable assets or in the form of repurchase agreements.

2. The valuation of marketable assets is performed on a daily basis, taking into account the reference price quoted on the market on which the asset is traded. If more than one price is quoted, the lowest of these prices shall be used. In the absence of a representative price for a particular asset on the business day preceding the valuation date, the last trading price shall be used. If the obtained reference price is older than five days or has not moved for at least five days, the Eurosystem mechanism for defining a theoretical price shall be activated. The market value of a debt instrument shall be calculated including accrued interest. In the case of Greek government

⁴ "Single A" means a minimum long-term rating of "A-" by Fitch or S&P, or "A3" by Moody's.

⁵ Except in the case of ECAIs, where all accepted ECAI systems may be used.

⁶ In the case of marketable assets issued by non-financial corporations but not rated by an accepted ECAI, this requirement applies to the credit assessment of issuers.

⁷ See Annex 2.

⁸ See Annex 2.

securities, the price quoted on the Electronic Market for Government Securities (HDAT, Article 26 of Law 2515/1997, as amended) shall be used as reference price.

3. The Bank of Greece shall value non-marketable assets taking into account the outstanding amount; any change in the outstanding amount shall be notified by the counterparty to the Bank of Greece in a timely manner and at the latest by the end of the following business day.

D. Risk control measures

1. Valuation haircuts

Valuation haircuts imply that the value of the underlying asset is calculated as the market value of the asset less a certain percentage (haircut). This in the case of marketable assets depends on the liquidity category, the coupon structure and the residual maturity of the asset and in the case of non-marketable assets depends on the type of interest and the residual maturity.

a) Marketable assets

i) For the calculation of the haircut, marketable assets are allocated to one of four liquidity categories:⁹

TABLE 1

<i>Category I</i>	<i>Category II</i>	<i>Category III</i>	<i>Category IV</i>
<i>Central government debt instruments</i>	<i>Local and regional government debt instruments</i>	<i>Traditional covered bank bonds</i>	<i>Asset-backed securities^(a)</i>
<i>Debt instruments issued by central banks^(b)</i>	<i>Jumbo covered bank bonds^(c)</i>	<i>Credit institution debt instruments</i>	
	<i>Agency debt instruments⁴</i>	<i>Debt instruments issued by corporate and other issuers^(d)</i>	
	<i>Supranational debt instruments</i>		

(a) Asset-backed securities are included in category IV, regardless of the classification of the issuer.

(b) Debt certificates issued by the ECB and debt instruments issued by the national central banks prior to the adoption of the euro in their respective Member State are included in liquidity category I.

⁹ In general, the issuer classification determines the liquidity category. However, all asset-backed securities are included in category IV, regardless of the classification of the issuer, and Jumbo covered bank bonds are included in category II, in contrast to other debt instruments issued by credit institutions, which are included in category III.

- (c) Only instruments with an issuing volume of at least EUR 1 billion, for which at least three market-makers provide regular bid and ask quotes, fall into the asset class of Jumbo covered bank bonds.
- (d) Only marketable assets issued by issuers that have been classified as agencies by the ECB are included in liquidity category II. Marketable assets issued by other agencies are included in liquidity category III.

ii) Based on the above liquidity categories, the levels of valuation haircuts applied to eligible marketable assets that are fixed coupon and zero coupon instruments are set as follows¹⁰:

TABLE 2

Residual maturity (years)	Levels of valuation haircuts applied to eligible marketable assets by liquidity category							
	Category I		Category II		Category III		Category IV	
	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon	fixed coupon	zero coupon
0-1	0.5%	0.5%	1%	1%	1.5%	1.5%	2%	2%
1-3	1.5%	1.5%	2.5%	2.5%	3%	3%	3.5%	3.5%
3-5	2.5%	3%	3.5%	4%	4.5%	5%	5.5%	6%
5-7	3%	3.5%	4.5%	5%	5.5%	6%	6.5%	7%
7-10	4%	4.5%	5.5%	6.5%	6.5%	8%	8%	10%
>10	5.5%	8.5%	7.5%	12%	9%	15%	12%	18%

iii) The valuation haircuts applied to eligible marketable inverse floating rate instruments are the same across all liquidity categories and are shown below:

TABLE 3

Levels of valuation haircuts applied to inverse floating rate debt instruments

<i>Residual maturity (years)</i>	<i>Valuation haircut</i>
0-1	2%
1-3	7%
3-5	10%
5-7	12%
7-10	17%
>10	25%

iv) The valuation haircuts applied to marketable debt instruments with variable rate coupons¹¹ is that applied to the zero-to-one-year maturity bucket (Table 2 above) of fixed coupon instruments in the liquidity category to which the instrument is assigned.

¹⁰ The above haircuts are also applied to inflation-indexed bonds or instruments linked to a change in the credit rating of the issuer.

¹¹ A coupon payment is considered a variable rate payment if the coupon is linked to a reference interest rate and if the resetting period corresponding to this coupon is no longer than one year. Coupon payments for which the resetting period is longer than

v) The risk control measures applied to a marketable debt instrument with more than one type of coupon payment depend only on the coupon payments during the remaining life of the instrument. The valuation haircut applied to such an instrument is set equal to the highest of the haircuts applicable to debt instruments with the same residual maturity, and coupon payments of any one of the types occurring in the remaining life of the instrument are considered.

b) Non-marketable assets

i) The valuation haircuts on the outstanding amounts of eligible non-marketable assets depend on the residual maturity, as follows:

TABLE 4

**Levels of valuation haircuts applied to
non-marketable assets with fixed interest payments**

Residual maturity (years)	Valuation haircut
0-1	9%
1-3	15%
3-5	20%
5-7	24%
7-10	29%
>10	41%

ii) The haircut applied to non-marketable assets with variable rate interest payments is set at 7%.¹²

iii) The risk control measures applied to an eligible non-marketable asset with more than one type of interest payment depend only on the interest payments during the remaining life of the asset. If there is more than one type of interest payment during the remaining life of the asset, the remaining interest payments are treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the asset.

iv) Non-marketable retail mortgage-backed debt instruments are subject to a valuation haircut of 20%.

2. Margin calls

If, on the valuation date, the adjusted value of the assets, i.e. for marketable assets, the market value plus accrued interest less haircuts and, for non-marketable assets, the outstanding amount less haircuts, does not match the value of financing extended by

one year are treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the debt instrument.

¹² For the definition of variable rate payment see footnote 11 above.

the Bank of Greece and the deviation exceeds the percentages specified below, a symmetric margin call shall be performed, as follows:

- a) If the adjusted value of the underlying asset falls short of the value of financing by more than 0.5%, the counterparty shall be called upon to deliver additional assets or cash to the Bank of Greece up to the required value of underlying assets.
- b) If the adjusted value of the assets exceeds the value of financing by more than 0.5, the Bank of Greece shall return assets or cash to the counterparty up to the required value of underlying assets.

E. Other provisions

1. The provisions of this Section on valuation, risk control measures and margin calls shall not apply to outright operations.
2. Valuation haircuts shall not apply to liquidity-absorbing operations of the Bank of Greece.
3. Any tax on interest accrued on underlying assets shall not affect valuation.
4. In addition to the risk control measures provided for in paragraphs D.1 and D.2 of this Section, the Bank of Greece, acting in accordance with the applicable ECB decisions, may also:
 - a) apply initial margins,¹³ which would imply that counterparties would need to provide underlying assets with a value at least equal to the liquidity provided by the Bank of Greece plus the value of the initial margin;
 - b) apply limits to the exposure vis-à-vis issuers/debtors or guarantors;
 - c) require additional guarantees from financially sound entities in order to accept certain assets.
5. The ECB may at any time decide to exclude individual assets from the published list of eligible collateral. If at the time of exclusion from the list an asset is being used in an outstanding monetary policy operation, it shall be replaced by other assets and a margin call may be triggered. In addition, the counterparty shall withdraw the asset on the earliest possible date.

F. Cross-border use of collateral

1. Counterparties may obtain funds from the Bank of Greece by making use of assets located in another country of the euro area. Eligible assets must be usable on a cross-border basis throughout the euro area for the handling of all types of

¹³ See Annex 2.

operations in which the Bank of Greece provides liquidity against eligible assets. To this end, two alternatives mechanisms can be used:

- a) the corresponding central banking model (CCBM) which has been developed by the national central banks and the ECB; or
- b) eligible links between securities settlement systems of EU Member States, i.e. links complying with the Eurosystem's criteria [user standards] and approved by the ECB (as per the list of eligible links published on the ECB's website).

The CCBM can be used for all eligible assets. Links between SSSs can be used for marketable assets only.

2. Through the operation of the CCBM, the national central banks and the ECB ensure that all eligible assets issued/deposited in a Member State of the euro area can be used on a cross-border basis.

3. In the context of the CCBM, all national central banks of the Eurosystem maintain securities accounts for each other and act as correspondents for each other.

4. The cross-border use of eligible assets is subject to the procedures, time frame and other requirements applicable under the CCBM. "

Part 2: Other amendments

Following the replacement of Section V as above, amendments are made to relevant provisions of other Sections of MPCAct 54/27.2.2004, as follows:

1. Paragraph 3 of Section I is replaced as follows:

"No restrictions or requirements are placed a priori on the range of counterparties to outright transactions. In this particular type of transactions, counterparties may also include entities that are not credit institutions, the provision of paragraph C.2 of Section VI hereof being applicable."

2. Paragraph A.2 of Section II is replaced as follows:

"By its reverse transactions, the Bank of Greece: a) extends loans against eligible collateral, as defined in Section V hereof; or b) buys/sells eligible marketable assets under a repurchase/resale agreement, respectively. The terms and conditions of these transactions are specified in the "Financing and collateral agreement" and the "Repurchase Agreement" entered into by the Bank of Greece and the counterparty."

3. The first indent of subsection A of Section III is replaced as follows:

"In order to satisfy temporary liquidity needs, counterparties fulfilling the requirements of Section I hereof, may use the marginal lending facility against collateral in the form of a pledge on eligible assets, as defined in Section V, or repurchase agreements, on the following terms and conditions:"

4. The first sentence of Section IV is replaced as follows:

"In the context of the HERMES/TARGET system and in accordance with the provisions hereof, the Bank of Greece shall make available to counterparties intraday credit against underlying assets pledged by the counterparties or sold by the counterparties to the Bank under a repurchase agreement. Intraday credit shall be provided against collateral of the assets referred to in Section V hereof and on the following terms and conditions:"

5. Paragraph C.3 of Section VI is replaced as follows:

"Only marketable assets can be used in outright transactions."

6. Paragraph A.2.a of Section VIII is replaced as follows:

"In the event that a counterparty does not comply with the rules for the use of underlying assets, i.e. i) a counterparty provides ineligible assets (namely, assets issued or guaranteed by itself or by a person with which the counterparty has "close links", as defined in paragraph V.A.7 hereof, or assets not included in the published lists of eligible assets), or ii) does not replace, as required by point (b) of this paragraph, the assets following an event after which eligible assets become ineligible in the sense of case (i) of this paragraph, the Bank of Greece shall be entitled to take the following measures:"

7. Paragraph A.2.b.i of Section VIII is replaced as follows:

"If the assets become ineligible as a result of a merger between the counterparty and the issuer/debtor or guarantor of the assets and are not replaced by the counterparty within 20 business days of the date on which the merger became final and binding upon the parties."

8. Paragraph A.2.b.iii of Section VIII is replaced as follows:

"If the assets, subsequent to their deposit to the Bank of Greece, become ineligible as a result of other circumstances (e.g. they are removed from the published list of eligible assets) and are not replaced by the counterparty within 20 business days of the date on which the asset becomes ineligible."

9. The term "securities" is replaced by "assets" in the following cases:

- Section III, paragraph A.4;
- Section III, paragraph A.5.a;
- Section IV, paragraph 2;
- Section VI, paragraph A.7.a, with the exception of second subparagraph, where the term "securities" is replaced by the term "marketable assets";
- Section VI, paragraph A.7.e;
- Section VIII, subsection A, first sentence, second subparagraph;
- Section VIII, paragraph A.1; and

- Section VIII, paragraph A.2.

10. Regarding outright transactions, the term "securities" is replaced by the term "assets" in the following cases:

- Section I, paragraph 4.a;
- Section II, Section B;
- Section VI, paragraph A.7.d;
- Section VI, paragraph B.1;
- Section VI, paragraph C.1;
- Section VI, paragraph C.2; and
- Section VII, paragraph 4.

11. Any reference to subsections B and C of Section V of MPC Act 54/27.2.2004 shall be construed as a reference to subsections C and D of Section V in the following cases:

- Section III, paragraph A.4.a;
- Section III, paragraph A.4.b.(ii);
- Section III, paragraph A.5.a;
- Section IV, paragraph 2; and
- Section VI, paragraph A.7a.

12. In Annex 2 (Glossary), the definition of haircut is replaced as follows:

"Valuation haircut: a risk control measure applied to underlying assets used in reverse transactions, implying that the central bank calculates the value of the underlying assets, as provided for in this Act, reduced by a certain percentage (haircut)."

The present Act shall come into effect on 1 January 2007.

The government budget shall incur no expenses on account of this Act.

This Act shall be published in the Government Gazette (Issue A).

THE MEMBERS

P. Thomopoulos N. Paleocrassas
G. Demopoulos A. Mantzavinos
G. Oikonomou

THE CHAIRMAN

Nicholas Garganas