Easing of conditions for targeted longer-term refinancing operations (TLTRO III)

12 March 2020

- More favourable operations to support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises
- Interest rate on TLTRO III reduced by 25 basis points and can be as low as 25 basis points below average deposit facility rate during period from June 2020 to June 2021 for all TLTRO III operations outstanding during that period
- Borrowing allowance raised to 50% of eligible loans
- Bid limit per operation removed on all future operations
- Lending performance threshold reduced to 0%
- Early repayment option available after one year from settlement starting in September 2021
- Modification accompanied by series of longer-term refinancing operations (LTROs) designed to bridge liquidity needs until settlement of fourth TLTRO III operation in June 2020, starting from next week

The Governing Council of the European Central Bank (ECB) today decided to modify some of the key parameters of the third series of targeted longer-term refinancing operations (TLTRO III) to support the continued access of firms and households to bank credit in the face of disruptions and temporary funding shortages associated with the coronavirus outbreak. The changes will apply to all TLTRO III operations.

For the period from 24 June 2020 to 23 June 2021, the interest rate on all TLTRO III operations outstanding during that time will be 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the same period. From 24 June 2020 to 23 June 2021, for counterparties whose eligible net lending between 1 April 2020 and 31 March 2021 reaches the benchmark, the interest rate applied on all TLTRO III operations outstanding over that period will be 25 basis points below the average interest rate on the deposit facility prevailing over the same period, and in any case not higher than -0.75%.

The maximum total amount that counterparties will henceforth be entitled to borrow is raised from 30% to 50% of their stock of eligible loans as at 28

February 2019 for all future TLTRO III operations. The amount counterparties can borrow under future TLTRO III operations is reduced by any amount that they previously borrowed under TLTRO II or TLTRO III that is still outstanding.

The limit of 10% of the stock of eligible loans for the amount of funds that can be borrowed in each operation is removed on all future operations.

In view of the changing economic environment, the lending performance threshold that needs to be met in the period between 1 April 2020 and 31 March 2021 in order to attain the minimum interest rate on TLTRO III operations has been lowered to 0%, from 2.5%.

The option for counterparties to repay the amounts borrowed under TLTRO III earlier than their final maturity will now be available one year from the settlement of each operation, instead of two years, starting in September 2021. The changes to TLTRO III are accompanied by a series of LTROs designed to bridge liquidity needs and support the normal functioning of the euro money market until the settlement of the fourth TLTRO III operation on 24 June 2020. A separate press release provides details.

These changes will apply as of the TLTRO III operation to be allotted on 19 March 2020 and will be implemented via amendments to the Decision of the ECB of 22 July 2019 on a third series of targeted longer-term refinancing operations (ECB/2019/21), as amended by the Decision of the ECB of 12 September 2019 (ECB/2019/28). The first amendment, to be published by 16 March 2020, will concern modifications to the borrowing allowance and the bid limits per operation. The second amendment, to be published before the fourth TLTRO III operation, will concern the lending performance threshold, the temporary reduction in rates applied to all TLTRO III operations outstanding during the period from 24 June 2020 to 23 June 2021, as well as further aspects.

Measures to support bank liquidity conditions and money market activity

12 March 2020

- Series of additional longer-term refinancing operations to safeguard liquidity and money market conditions
- Operations allotted on a weekly basis and all mature on 24 June 2020 when the fourth operation of TLTRO III settles

The Governing Council of the European Central Bank (ECB) has today decided on additional longer-term refinancing operations (LTROs) to provide immediate liquidity support to banks and to safeguard money market conditions. While there are no material signs of strains in money markets or of liquidity shortages in the banking system, these operations will provide an effective backstop if necessary.

The operations will be conducted as fixed rate tender procedures with full allotment. The rate in these operations will be fixed at the average of the deposit facility rate over the life of the respective operation. Interest will be paid when the respective operation matures. All operations mature on 24 June 2020.

The operations will be conducted according to the indicative calendar below. The first operation will be announced on 16 March 2020, allotted on 17 March 2020 and settled on 18 March 2020.

Indicative calendar for the new longer-term refinancing operations conducted as of March 2020

Announcement	Allotment	Settlement	Maturity
Monday, 16 March 2020	Tuesday, 17 March 2020	Wednesday, 18 March 2020	Wednesday, 24 June 2020
Monday, 23 March 2020	Tuesday, 24 March 2020	Wednesday, 25 March 2020	Wednesday, 24 June 2020
Monday, 30 March 2020	Tuesday, 31 March 2020	Wednesday, 1 April 2020	Wednesday, 24 June 2020
Monday, 6 April 2020	Tuesday, 7 April 2020	Wednesday, 8 April 2020	Wednesday, 24 June 2020
Thursday, 9 April 2020	Tuesday, 14 April 2020	Wednesday, 15 April 2020	Wednesday, 24 June 2020
Monday, 20 April 2020	Tuesday, 21 April 2020	Wednesday, 22 April 2020	Wednesday, 24 June 2020

Monday, 27 April 2020	Tuesday, 28 April 2020	Wednesday, 29 April 2020	Wednesday, 24 June 2020
Monday, 4 May 2020	Tuesday, 5 May 2020	Wednesday, 6 May 2020	Wednesday, 24 June 2020
Monday, 11 May 2020	Tuesday, 12 May 2020	Wednesday, 13 May 2020	Wednesday, 24 June 2020
Monday, 18 May 2020	Tuesday, 19 May 2020	Wednesday, 20 May 2020	Wednesday, 24 June 2020
Monday, 25 May 2020	Tuesday, 26 May 2020	Wednesday, 27 May 2020	Wednesday, 24 June 2020
Monday, 1 June 2020	Tuesday, 2 June 2020	Wednesday, 3 June 2020	Wednesday, 24 June 2020
Monday, 8 June 2020	Tuesday, 9 June 2020	Wednesday, 10 June 2020	Wednesday, 24 June 2020

As the operations mature on 24 June 2020, i.e. on the settlement day of the fourth operation of TLTRO III, TLTRO III-eligible counterparties could shift all of their outstanding new LTRO amounts into the fourth operation of TLTRO III allotted on 18 June 2020 and settling on 24 June 2020.

The ECB stands ready to provide additional liquidity, if needed.

ECB Banking Supervision

Temporary capital and operational relief in reaction to coronavirus

12 March 2020

- Banks can fully use capital and liquidity buffers, including Pillar 2 Guidance
- Banks will benefit from relief in the composition of capital for Pillar 2 Requirements
- ECB to consider operational flexibility in the implementation of bank-specific supervisory measures

The European Central Bank (ECB) today announced a number of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of the coronavirus (COVID-19) become apparent.

"The coronavirus is proving to be a significant shock to our economies. Banks need to be in a position to continue financing households and corporates experiencing temporary difficulties. The supervisory measures agreed today aim to support banks in serving the economy and addressing operational challenges, including the pressure on their staff," said Andrea Enria, Chair of the ECB Supervisory Board.

Capital and liquidity buffers have been designed with a view to allowing banks to withstand stressed situations like the current one. The European banking sector has built up a significant amount of these buffers. The ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR). The ECB considers that these temporary measures will be enhanced by the appropriate relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.

Banks will also be allowed to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).

The above measures provide significant capital relief to banks in support of the economy. Banks are expected to use the positive effects coming from these measures to support the economy and not to increase dividend distributions or variable remuneration.

In addition, the ECB is discussing with banks individual measures, such as adjusting timetables, processes and deadlines. For example, the ECB will consider rescheduling on-site inspections and extending deadlines for the implementation of remediation actions stemming from recent on-site inspections and internal model investigations, while ensuring the overall prudential soundness of the supervised banks. In this context, the ECB Guidance to banks on non-performing loans also provides supervisors with sufficient flexibility to adjust to bank-specific circumstances. Extending deadlines for certain non-critical supervisory measures and data requests will also be considered. In the light of the operational pressure on banks, the ECB supports the decision by the European Banking Authority to postpone the 2020 EBA EU-wide stress test and will extend the postponement to all banks subject to the 2020 stress test.

Banks should continue to apply sound underwriting standards, pursue adequate policies regarding the recognition and coverage of non-performing exposures, and conduct solid capital and liquidity planning and robust risk management.
These actions follow a letter sent on 3 March 2020 to all significant banks to remind them of the critical need to consider and address the risk of a pandemic in their contingency strategies. Banks were asked to review their business continuity plans and consider what actions could be taken to enhance preparedness to minimise the potential adverse effects of the spread of the coronavirus. ECB Banking Supervision will engage with banks to ensure the continuity of their critical functions. The ECB Supervisory Board is monitoring developments; these measures will be revised as necessary.

Notes

- Banks need to have own funds in sufficient quantity and quality on the liabilities side of their balance sheet to be able to absorb losses.
- European banking law defines three elements of own funds. **Common Equity Tier 1 capital** (CET1) is the highest quality of own funds and is mainly composed of shares and retained earnings from previous years. **Additional Tier 1 capital** (AT1) and **Tier 2 capital** can be equity or liability instruments and are of lower quality.
- **Pillar 2 capital** consists of two parts. One is the **Pillar 2 Requirement or P2R**, covering risks which are underestimated or not sufficiently covered by **Pillar 1**. The other is the **Pillar 2 Guidance or P2G**, which indicates to banks the adequate level of capital to be maintained in order to have sufficient capital as a buffer to withstand stressed situations, in particular as assessed on the basis of the adverse scenario in the supervisory stress tests.
- Under the new Capital Requirements Directive V (CRDV) banks can fulfil Pillar 2 Requirements with a minimum 56.25% CET1 as a general principle. The remaining P2R can be filled with Additional Tier 1 and Tier 2 instruments. This law was initially scheduled to come into effect in January 2021 as part of the latest revision of the CRDV.
- There are also **capital buffers** mitigating specific risks, such as the **capital conservation buffer** (CCB) and the **countercyclical capital buffer** (CCyB) (the latter being set by the national macroprudential authorities). These capital buffers are designed to absorb losses in times of stress.
- In case of banks' capital falling below the combined buffer requirement (CCB, CCyB and systemic buffers), banks can make distributions only within the limits of the maximum distributable amount (MDA) as defined by EU law.