



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Amendments to Central Bank of Malta Directive No. 8 on the Documentation on Monetary Policy Instruments and Procedures

The CBM has amended Directive No.8 on the Monetary Policy Instruments and Procedures to reflect changes in Annex I (The General Documentation on Monetary Policy Instruments and Procedures) and Annex II (Additional Minimum Common Features) of the Guideline ECB/2000/7 on monetary policy instruments and procedures of the Eurosystem.

The changes in the Directive No.8 mainly relate to the following:

- The **new risk control measures** announced by the ECB through a press release issued on the 4 September 2008. The review of such measures mainly relate to Asset-Backed Securities (ABSs) and Uncovered Bank Bonds. Following the biennial review in the risk control framework, the ECB has incorporated some technical refinements in the framework for Eurosystem credit operations. These technical refinements reflect improvements in the methodological framework, the assessment of market and liquidity risk characteristics of eligible assets, the actual use of eligible assets by counterparties and new developments in financial instruments.
- The **acceptance of non-euro denominated collateral in contingency situations** whereby, the Governing Council may decide to accept as eligible collateral certain marketable debt instruments issued by one or more non-euro area G10 central governments in their domestic currency.
- Other amendments to refine the clarity of the text to better reflect the current operational arrangements.

Details of the exact changes are explained below:

Counterparty Agreement

The ECB has amended some points in the Annex II relating to Minimum Common Features which are reflected in the Counterparty Agreement in Directive No.8.

- In Section 5 relating to Default, point e) has been amended as following:
“The Counterparty’s authorisation to conduct activities under either the Directive 2006/48/EC or Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directive 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, as implemented in the relevant Member State of the Eurosystem respectively, is suspended or revoked”.

➤ In Section 5 relating to Default, point g) has been amended as following:
“Measures such as referred to in Article 30,31,33 and 34 of the Directive 2006/48/EC are taken against the counterparty”.

- In Section 5 relating to Default the following points o) to s) have been inserted:
- *o) The Counterparty becomes subject to the freezing of funds and/or other measures imposed by the Community restricting the Counterparty’s ability to use its funds;*
 - *p) The Counterparty becomes subject to the freezing of funds and/or other measures imposed by a Member State under Article 60(2) of the Treaty restricting the Counterparty’s ability to use its funds;*
 - *q) All or a substantial part of the Counterparty’s assets are subject to a freezing order, attachment, seizure or any other procedure that is intended to protect the public interest or the rights of the Counterparty’s creditors;*
 - *r) All or a substantial part of the Counterparty’s assets are assigned to another entity;*
 - *s) Any other impending or existing event the occurrence of which may threaten the performance by the Counterparty of its obligations under the arrangement it entered into for the purpose of effecting monetary policy operations or any other rules applying to the relationship between the Counterparty and any of the central banks of the Eurosystem.*

➤ In Section 5 relating to Consequences of default, the 3rd paragraph has been amended as follows:

If the counterparty defaults on its obligations, the Bank may also take the following actions:

- *Suspension or exclusion of the Counterparty from access to open market operations;*
- *Suspension or exclusion of the Counterparty from access to the Eurosystem’s standing facilities;*
- *Terminating all outstanding agreements and transactions;*
- *Demanding accelerated performance of claims that have not yet matured or are contingent.*

In addition, the NCB may be entitled to exercise the following remedies:

- *Using deposits of the Counterparty placed with the Bank to set off claims against that Counterparty;*
- *Suspending the performance of obligations against the Counterparty until the claim on the Counterparty has been satisfied;*
- *Claiming default interest;*
- *Claiming an indemnity for any losses sustained as a consequence of a default by the Counterparty;*
- *The Bank has the right to realise all assets provided as collateral without undue delay and in such a way as to entitle the NCB to realise value for the credit provided, if the Counterparty does not settle its negative balance promptly.*

Chapter 2: Eligible Counterparties

➤ In Section 2.2 on the Criteria for selection of counterparties for quick tenders and bilateral operations, the text was amended to indicate that fine-tuning operations may be executed with a broader range of counterparties. The text now reads the following: *“In quick tender and bilateral operations, the NCBs deal with the counterparties which are included in their respective set of fine-tuning counterparties. Quick tenders and bilateral operations may be executed with a broader range of counterparties”.*

Chapter 3: Open Market Operations

- In Section 3.1 on the Main Refinancing Operations, the sentence *“They also provide the bulk of refinancing to financial sector”* was **removed** from the text.
- In Section 3.2 on the Longer-Term Refinancing Operations, the sentence *“These operations represent only a small part of the global refinancing operations”* was **removed** from the text.

Chapter 4: Standing Facilities

- In Section 4.1 on the Marginal Lending Facility, a sentence was included in the 3rd paragraph of the section. The paragraph now reads the following, *“Institutions fulfilling the general counterparty eligibility criteria specified in Chapter 2, may access the marginal lending facility. Access to the marginal lending facility is granted only when TARGET2 is operational. On days when the SSSs are not operational, access to the marginal lending facilities is granted on the basis of underlying assets which have already been pre-deposited with the Bank”*.

Chapter 5: Minimum Reserves

- In Section 5.2 on Institutions Subject to Minimum Reserves, the 2nd paragraph is reworded as following: *“The ECB establishes and maintains a list of institutions subject to the Eurosystem’s minimum reserve system. The list is available to the public on the websites of the Bank, www.centralbankmalta.org and of the ECB, www.ecb.europa.eu. The ECB also makes public a list of any institutions exempt from their obligations under this system for reasons other than being subject to reorganisation measures or the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB’s Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem’s standing facilities.*
- In Section 5.3 on Institutions exempted from Minimum Reserves, the text has been reworded as following: *“Institutions are automatically exempted from reserve requirements from the start of the maintenance period within which their authorisation is withdrawn or surrendered, or within which a decision to submit the institution to winding-up proceedings is taken by a judicial authority or any other competent authority of a participating Member State. According to Council Regulation (EC) No 2531/98 and ECB Regulation ECB/2003/9, the ECB may also exempt institutions from their obligations under the Eurosystem’s minimum reserve system on a non-discriminatory basis if they are subject to reorganisation measures or the freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB’s Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem’s standing facilities, or if the purposes of the Eurosystem’s minimum reserve system would not be met by imposing these obligations on those particular institutions. If its decision on any such exemption is based on the purposes of the Eurosystem’s minimum reserve system, the ECB takes into account one or more of the following criteria:*

- *The institution is authorised to pursue special-purpose functions only;*
- *The institution is prohibited from exercising active banking functions in competition with other credit institutions; and/or*
- *The institution is under a legal obligation to have all its deposits earmarked for purposes related to regional and/or international development assistance”.*

➤ In Table 5.1 of the Reserve Base and Reserve Ratios, should be the following:

<p>A. Liabilities included in the reserve base and to which the positive reserve ratio is applied</p> <p>Deposits*</p> <ul style="list-style-type: none">● Overnight deposits● Deposits with agreed maturity up to and including two years● Deposits redeemable at notice up to and including two years <p>Debt securities issued</p> <ul style="list-style-type: none">● Debt securities with an original maturity of up to and including two years <p>B. Liabilities included in the reserve base and to which a zero reserve ratio is applied</p> <p>Deposits*</p> <ul style="list-style-type: none">● Deposits with agreed maturity of over two years● Deposits redeemable at notice of over two years● Repos <p>Debt securities issued</p> <ul style="list-style-type: none">● Debt securities with an original maturity of over two years <p>C. Liabilities excluded from the reserve base</p> <ul style="list-style-type: none">● Liabilities vis-à-vis other institutions subject to the Eurosystem’s minimum reserve system● Liabilities vis-à-vis the ECB and the participating national central banks
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*Regulation (EC) No 2181/2004 (ECB/2004/21) of the European Central Bank of 16 December 2004, amending Regulation (EC) No 2423/2001 (ECB/2001/13) concerning the consolidated balance sheet of the monetary financial institutions sector and Regulation (EC) No 63/2002 (ECB/2001/18) concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non financial corporations, explicitly requires the reporting of deposit liabilities at nominal value. Nominal value means the amount of principal that a debtor is contractually obliged to repay to a creditor. This amendment had become necessary because Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and the consolidated accounts of banks and other financial institutions (OJ L372, 31.12.1986, p.1) had been amended to the effect that certain financial instruments could be priced at fair value.

Chapter 6: Eligible Assets

➤ In the first section of Chapter 6, the following text has been inserted *“The Eurosystem shall only provide counterparties with advice regarding eligibility as Eurosystem collateral if already issued marketable assets or outstanding non-marketable assets are submitted to the Eurosystem as collateral. There shall thus be no pre-issuance advice”.*

- In Section 6.1.1.1 Type of asset, the following footnote is inserted in point a) after the words has a fixed, unconditional, principal amount. The footnote reads the following: *“Bonds with warrants or other similar rights attached are not eligible”*.
- In Section 6.1.1.1 Type of asset, in the section on Asset-backed Securities, the text has been reworded as following: *“The cash-flow generating assets backing the asset-backed securities must fulfil the following requirements:*
 - (a) the acquisition of such assets must be governed by the law of an EU Member State;*
 - (b) they must be acquired from the originator or an intermediary by the securitisation special-purpose vehicle in a manner which the Eurosystem considers to be a “true-sale” that is enforceable against any third party, and be beyond the reach of the originator and its creditors, including in the event of the originator’s insolvency; and*
 - (c) they must not consist, in whole or in part, actually or potentially, of credit-linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives.*

Within a structured issue, in order to be eligible, a tranche (or sub-tranche) may not be subordinated to other tranches of the same issue. A tranche (or sub-tranche) is considered to be non-subordinated vis-à-vis other tranches (or sub-tranches) of the same issue, if in accordance with the priority of payment applicable after the delivery of an enforcement notice, as set out in the offering circular, no other tranche (or sub-tranche) is given priority over that tranche (or sub-tranche) in respect of receiving payment (principal and interest), and thereby such tranche (or sub-tranche) is last in incurring losses among the different tranches or sub-tranches of a structural issue”.

- In Section 6.1.1.3 on the Place of issue, footnote no.23 has been reworded as following: *“Since 1 January 2007, international debt securities in global bearer form issued through the ICSDs Euroclear Bank (Belgium) and Clearstream Banking Luxembourg must, in order to be eligible, be issued in the form of New Global Notes (NGNs) and must be deposited with a Common Safekeeper (CSK) which is an ICSD, or if applicable, a CSD that fulfils the minimum standards established by the ECB”.*
- In Section 6.1.2.1 related to Credit claims, under the section type of asset, the last sentence of the first paragraph has been reworded as following *“Credit claims may not afford rights to the principal and/or interest that are subordinated to the rights of the holders of other credit claims (or other tranches or sub-tranches in the same syndicated loan) or other debt instruments of the same issuer”.*
- In Section 6.1.2.1 related to Credit claims, under the section type of asset, in the second paragraph, the following sentence was included: *“Furthermore, credit claims with an interest rate that is linked to the inflation rate are also eligible”.*
- In Section 6.1.3.1 on the Additional requirements for the use of eligible assets, the section on close links has been reworded as following: *“Close links means 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 directly, or indirectly, through one or more other undertakings, 20% or more of the capital of the issuer /debtor/guarantor; or*
 - ii) the issuer/debtor/guarantor owns directly, or indirectly, through one or more other undertakings, 20% or more of the capital of the counterparty; or*

- iii) *a third party owns more than 20% of the capital of the counterparty and more than 20% of the capital of the issuer/debtor/guarantor, either directly or indirectly through one or more undertakings.*

The above provisions on close links does not apply to: (a) close links between the counterparty and the public authorities of EEA countries or in the case where a debt instrument is guaranteed by a public authorities of EEA countries or in the case where a debt instrument is guaranteed by a public sector entity which had the right to levy taxes; (b) covered bank bonds issued in accordance with the criteria set out in Article 22(4) of the UCITS Directive; or (c) cases in which debt instruments are protected by specific legal safeguards comparable to those for the instruments given under (b) above such as in the case of non-marketable retail mortgage-backed debt instruments (RMBDs) which are not securities.

Moreover, a counterparty may not submit as collateral any asset-backed security if the counterparty (or any third party with which it has close links) provides a currency hedge to the asset-backed security by entering into a currency hedge transaction with the issuer as a hedge counterparty or provides liquidity support for 20% or more of the outstanding amount of the asset-backed security”.

- *In Section 6.2 on the Eurosystem Credit Assessment Framework, the following new paragraph has been added: “With regard to the ECAI source, the assessment must be based on a public rating. The Eurosystem reserves the right to request any clarification that it considers necessary. For asset-backed securities, ratings must be explained in a publicly available credit rating report, being a detailed pre-sale report or new issue report, including inter alia a comprehensive analysis of structural and legal aspects, a detailed collateral pool assessment, an analysis of the transaction participants as well as an analysis of any relevant particularities of a transaction. Moreover ECAs must publish regular surveillance reports for asset-backed securities at least on a quarterly basis¹. These report should at least contain an update of the key transaction data (e.g. composition of the collateral pool, transaction participants, capital structure), as well as performance data”.*
- *In Section 6.2 on the Eurosystem Credit Assessment Framework, in the section Credit Quality Benchmark, footnote 41 has been replaced by the following: “Single A means a minimum long-term rating of ‘A-’ by Fitch or Standard & Poor’s, or ‘A3’ by Moody’s or ‘AL’ by DBRS. Furthermore, the subsequent two paragraphs have been reworded as following: “The Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils its requirements for high credit standards on the basis of any information it may consider relevant and may reject, limit the use of assets or apply supplementary haircuts on such grounds if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such measures can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral assets submitted by the counterparty. In case such a rejection is based on prudential information, the use of any such information transmitted either by counterparties or by the Malta Financial Services*

¹ For asset-backed securities whose underlying assets pay principal or interest at semi-annual or annual frequency, surveillance reports can follow a semi-annual or annual frequency respectively.

Authority shall be strictly commensurate with, and necessary for, the performance of the Eurosystem's tasks of conducting monetary policy.

Assets issued or guaranteed by entities subject to freezing of funds and/or other measures imposed by the European Community or by a Member State under Article 60(2) of the Treaty restricting the use of their funds or in respect of which the ECB's Governing Council issued a decision suspending or excluding their access to open market operations or the Eurosystem's standing facilities may be excluded from the list of eligible assets".

- In Section 6.2.3.1 related to the External credit assessment institution (ECAI) source, the second bullet of the first paragraph has been reworded as following: *"ECAIS must fulfil operational criteria and provide relevant coverage so as to endure the efficient implementation of the ECAF"*
- In Section 6.3 on the Risk Control Measures, the following paragraph has been added: *"The Eurosystem reserves the right to apply additional risk control measures if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such risk control measures, which shall be applied in a consistent, transparent and non-discriminatory manner, can also be applied at the level of individual counterparties if required to ensure such protection"*.
- The following points in Section 6.3.1 on the Risk Control Measures for marketable assets has been reviewed to take into consideration the review in the risk control framework announced by the ECB in September 2008:
 - *Eligible marketable assets are allocated to one of five liquidity categories based on issuer classification and asset type. The allocation of eligible assets to five liquidity categories is described in Table 6.2 below.*
 - *Individual debt instruments are subject to specific valuation haircuts. The haircuts are applied by deducting a certain percentage from the market value of the underlying asset. The haircuts applied to debt instruments included in category I to IV differ according to the residual maturity and coupon structure of the debt instrument as described in Table 6.3 for eligible marketable fixed coupon and zero coupon debt instruments².*
 - *Individual debt instruments included in category V are subject to a unique haircut of 12% regardless of maturity and coupon structure.*
 - *Individual debt instruments included in category V that are theoretically valued according to Section 6.4 are subject to additional valuation haircut. This haircut is directly applied at the level of theoretical valuation of the individual debt instrument in the form of a valuation markdown of 5%.*
 - *The valuation haircuts applied to all marketable inverse floating rate debt instruments included in categories I to IV are the same and are described in Table 6.4.*

² The valuation haircut levels applied to fixed coupon debt instruments are also applicable to debt instruments, the coupon of which is linked to a change in the rating of the issuer or to inflation-indexed bonds.

- *The haircut applied to marketable debt instruments included in categories I to IV with variable rate coupons³ is that applied to the zero-to-one-year maturity bucket of fixed coupon instrument in the liquidity category to which the instrument is assigned.*
- *The risk control measures applied to a marketable debt instrument included in categories I to IV with more than one type of coupon payment solely depend 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.*

³ 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 one year are treated as fixed rate payments, with the relevant maturity for the haircut being the residual maturity of the debt instrument.

➤ Table 6.2 has been amended as follows:

Table 6.2: Liquidity categories for marketable assets¹

<i>Category I</i>	<i>Category II</i>	<i>Category III</i>	<i>Category IV</i>	<i>Category V</i>
Central government debt instruments	Local and regional government debt instruments	Traditional covered bank bonds	Credit institution debt instruments (unsecured)	Asset-backed securities
Debt instruments issued by central banks ²	Jumbo covered bank bonds ³ Agency debt Instruments ⁴ Supranational debt instruments	Debt instruments issued by corporate and other ⁴ issuers		

¹In general, the issuer classification determines the liquidity category. However, all asset-backed securities are included in category V, regardless of the classification of the issuer, and Jumbo covered bank bonds are included in category II, while traditional covered bank bonds and other debt instruments issued by credit institutions are included in categories III and IV.

²Debt certificates issued by the ECB and debt instruments issued by the national central bank bonds prior to the adoption of the euro in their respective Member State are included in liquidity category I.

³Only instruments with an issuing of at least EUR1 billion, for which at least three market makers provide regular bid and ask quotes, fall into the asset class of Jumbo covered bank bonds.

⁴Only 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.

- Table 6.3 has been amended as follows:

Table 6.3: Levels of valuation haircuts (%) applied to eligible marketable assets in relation to fixed coupon and zero coupon instruments

	<i>Liquidity categories</i>									
Residual maturity (years)	Category I		Category II		Category III		Category IV		Category V	
	Fixed coupon	Zero coupon	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	6.5	6.5	12*	
1-3	1.5	1.5	2.5	2.5	3	3	8	8		
3-5	2.5	3	3.5	4	4.5	5	9.5	10		
5-7	3	3.5	4.5	5	5.5	6	10.5	11		
7-10	4	4.5	5.5	6.5	6.5	8	11.5	13		
>10	5.5	8.5	7.5	12	9	15	14	20		

***Individual debt instruments included in category V that are theoretically valued according to Section 6.4 are subject to an additional valuation haircut. This haircut is directly applied at the level of theoretical valuation of the individual debt instrument in the form of a valuation markdown of 5%.**

- The heading of Table 6.4 is replaced by the following: *“Levels of valuation haircuts applied to eligible marketable inverse floating rate debt instruments included in categories I to IV”*.
- In Section 6.3.2.1 under the heading ‘Credit claims’ the following footnote is inserted at the end of the first point: *“The valuation haircuts applied to credit claims with fixed rate interest payments are also applicable to credit claims the interest payments of which are linked to the inflation rate”*.
- A new section, Section 6.7 is inserted:
6.7 Acceptance of non-euro denominated collateral in contingencies

“In certain situations the Governing Council may decide to accept as eligible collateral certain marketable debt instruments issued by one or more non euro area G10 central governments in their domestic currency. Upon such decision the applicable criteria shall be clarified and the procedures to be applied for the selection and mobilization of foreign

collateral, including the sources and principles of valuation, the risk control measures and the settlement procedures shall also be communicated to counterparties.

Notwithstanding the provisions of section 6.1.1, such assets may be deposited/registered (issued), held and settled outside the EEA and, as stated above, may be denominated in currencies other than the euro. Any such assets used by a counterparty must be owned by the counterparty.

Counterparties that are branches of credit institutions located outside the EEA or Switzerland cannot use such assets as collateral”.

- The previous Section 6.6 on the Central Bank of Malta procedures on Collateral Management has been renumbered as Section 6.7.
- In Section 6.7 on the Central Bank of Malta procedures on Collateral Management, the first paragraph has been reworded to reflect that in the case of Finnish securities, now it has become possible for counterparties to pledge these securities with the Bank, whereas before Finnish securities could only be used on a repo/earmarking basis. Annex 6U was inserted to explain the procedures required from counterparties to use such securities.

Chapter 7: Open Market Operations: Tender Procedures

- In Section 7.3 on Announcement of Tender Operations, the following sentence has been added in the second paragraph, *“In a quick tender, which is not announced publicly in advance the selected counterparties are contacted directly by the Bank. In a quick tender, which is not announced publicly, the Bank may contact the selected counterparties directly”.*

Chapter 9: Procedures and Sanctions to be applied in the event of non-compliance with counterparty obligations

The title of Section 9.2 has been changed to the following: *“Suspension or Exclusion on the Grounds of Prudence or Events of Default”.*

Glossary Section

- The following definition of ‘Asset-backed securities’ is inserted:
Asset-backed securities (ABS): debt instruments that are backed by a pool of ringfenced financial assets (fixed or revolving), that convert into cash within a finite time period. In addition, rights or other assets may exist that ensure that servicing or timely distribution of proceeds to the holders of the security. Generally, asset-backed securities are issued by a specially created investment vehicle which has acquired the pool of financial assets from the originator/seller. In this regard, payments on the asset-backed securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements.

- The definition of ‘Correspondent central banking model’ is replaced by the following:
Correspondent central banking model (CCBM): a mechanism established by the **Eurosystem** with the aim of enabling counterparties to use underlying assets in a cross-border context. In the CCBM, **NCBs** act as custodians for one another. This means that each NCB has a securities account in its securities administration for each of the other NCBs and for the ECB. The CCBM is also available to counterparties of certain non-Eurosystem NCBs.

- The following definition of ‘Currency hedge transaction’ is inserted:
Currency hedge transaction: an agreement entered into between the issuer and a hedge counterparty, pursuant to which a portion of the currency risk arising from the receipt of cash flows in non-euro currency is mitigated by swapping the cash flows for euro currency payments to be made by the hedge counterparty, including any guarantee by the hedge counterparty of those payments.

- The definition of ‘End-of-day’ is replaced by the following:
End-of –day: the time of the business day following closure of **TARGET2** at which the payments processed in the TARGET2 are finalised for the day.

- The definition of ‘Quick tender’ is replaced by the following:
Quick tender: the **tender procedure** used by the **Eurosystem** for **fine-tuning operations** when it is deemed desirable to have a rapid impact on the liquidity situation in the market. Quick tenders are normally executed within a time frame of 90 minutes and are normally restricted to a limited set of **counterparties**.

- The definition of ‘RTGS (real-time gross settlement) system)’ is replaced by the following:
RTGS (real-time gross settlement) system: a settlement system in which processing and settlement take place on an order-by-order basis without netting continuously in real time. See also **TARGET2**.

- The definition of ‘TARGET’ is replaced by the following:
TARGET: the predecessor of the **TARGET2** system, operating in a decentralised structure linking together national **RTGS systems** and the ECB payment mechanism. The TARGET system is replaced by TARGET2 system in accordance with the migration schedule specified in Article 13 of Guideline ECB/2007/2.

- The following definition of ‘Valuation markdown’ is inserted:
Valuation markdown: a risk control measure applied to underlying assets used in **reverse transactions**, meaning that the central bank applies a reduction of the theoretical market value of the assets by a certain percentage before applying any **valuation haircuts**⁴.

Other Changes

The ECB’s website has been changed to www.ecb.europa.eu

⁴ So, for example, for asset-backed securities in liquidity category V that are valued using a theoretical price, a valuation markdown of 5% is applied to the theoretical price before the application of the valuation haircut of 12%. This is equivalent to a total haircut of 16.4%.