



Thoughts on TLTRO's III/6

MMCG

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TOPIC

Potential changes to TLTRO III parameters in December 2020, expected participation in the TLTRO-III.6 and relationship between excess reserves and short term rates.

Presentations by Michael Schneider (DZ Bank) and Harry David Gauvin (HSBC)

Series of TLTROs III

Indicative calendar for the third series of targeted longer-term refinancing operations (TLTROs-III)¹

	TLTRO-III.1	TLTRO-III.2	TLTRO-III.3	TLTRO-III.4	TLTRO-III.5	TLTRO-III.6	TLTRO-III.7
Lead institutions apply to their home NCB for TLTRO-III group treatment or changes to TLTRO-III group compositions (18:00) ²	Wed, 14/08/2019 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2019)	Mon, 04/11/2019 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 October 2019)	Mon, 10/02/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 January 2020)	Mon, 11/05/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 30 April 2020)	Mon, 17/08/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2020)	Mon, 02/11/2020 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 October 2020)	Mon, 08/02/2021 (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 January 2021)
NCBs provide confirmation to lead institution on TLTRO-III group treatment/changes to group compositions (15:30) ²	Fri, 23/08/2019	Thu, 14/11/2019	Thu, 20/02/2020	Thu, 21/05/2020	Thu, 27/08/2020	Thu, 12/11/2020	Thu, 18/02/2021
Deadline for the first report applicable to counterparties or groups participating for the first time or revised report as a result of data revisions, corporate reorganisations or changes in TLTRO-III groups (18:00) ^{2,3}	Tue, 27/08/2019 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with June 2019 as the reference month	Mon, 18/11/2019 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with September 2019 as the reference month	Mon, 24/02/2020 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with December 2019 as the reference month	Mon, 25/05/2020 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with March 2020 as the reference month	Mon, 31/08/2020 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with June 2020 as the reference month	Mon, 18/11/2020 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with September 2020 as the reference month	Mon, 22/02/2021 Reporting period: Sun, 01/04/2018 to Sun, 31/03/2019 Data vintage used for BSI transmission with December 2020 as the reference month
	Borrowing allowance calculated on the basis of eligible loans outstanding as at 28.02.2019						
Deadline for the reporting of self-secured loans together with its auditor's evaluation (18:00) ^{2,3}		Mon, 24/02/2020		Mon, 25/05/2020	Mon, 31/08/2020	Mon, 18/11/2020	Mon, 22/02/2021
NCBs inform counterparties about bid limits and borrowing allowances (by 15:30 at the latest) ²	Mon, 16/09/2019	Mon, 09/12/2019	Mon, 16/03/2020	Mon, 15/08/2020	Mon, 21/09/2020	Mon, 07/12/2020	Mon, 15/03/2021
Announcement (15:40)	Tue, 17/09/2019	Tue, 10/12/2019	Tue, 17/03/2020	Tue, 16/08/2020	Tue, 22/09/2020	Tue, 08/12/2020	Tue, 16/03/2021
Deadline for counterparties to submit bids (09:30)	Wed, 18/09/2019	Wed, 11/12/2019	Wed, 18/03/2020	Wed, 17/08/2020	Wed, 23/09/2020	Wed, 09/12/2020	Wed, 17/03/2021
Publication of allotment results (11:30)	Thu, 19/09/2019	Thu, 12/12/2019	Thu, 19/03/2020	Thu, 18/08/2020	Thu, 24/09/2020	Thu, 10/12/2020	Thu, 18/03/2021
Settlement	Wed, 25/09/2019	Wed, 18/12/2019	Wed, 25/03/2020	Wed, 24/08/2020	Wed, 30/09/2020	Wed, 16/12/2020	Wed, 24/03/2021
Deadline for the result of the auditor's evaluation of the first report (18:00) ²		Thu, 07/01/2021				Fri, 16/07/2021 ⁴	
Deadline for the second report (including the special reference period), and the result of the auditor's evaluation of the second report (18:00) ²				Tue, 17/08/2021 Reporting period: 01.04.2019 to 31.03.2021 (also for the optional special reference period: 01.03.2020 to 31.03.2021) Data vintage used for BSI transmission with May 2021 as the reference month			
NCBs inform counterparties about their interest rate related data (15:30) ²	Fri, 10/09/2021	Fri, 10/09/2021	Fri, 10/09/2021	Fri, 10/09/2021	Fri, 10/09/2021	Fri, 10/09/2021	Fri, 10/09/2021
Deadline for counterparties to notify NCBs of first voluntary early repayment request (17:00)	Wed, 22/09/2021	Wed, 22/09/2021	Wed, 22/09/2021	Wed, 22/09/2021	Wed, 22/09/2021	Wed, 15/12/2021	Wed, 23/03/2022
Settlement of first voluntary early repayment	Wed, 29/09/2021	Wed, 29/09/2021	Wed, 29/09/2021	Wed, 29/09/2021	Wed, 29/09/2021	Wed, 22/12/2021	Wed, 30/03/2022
NCBs inform counterparties about final interest rates (15:30) ²	Fri, 23/09/2022	Fri, 16/12/2022	Fri, 24/03/2023	Fri, 23/06/2023	Fri, 22/09/2023	Fri, 15/12/2023	Fri, 22/03/2024
Maturity date	Wed, 28/09/2022	Wed, 21/12/2022	Wed, 29/03/2023	Wed, 28/06/2023	Wed, 27/09/2023	Wed, 20/12/2023	Wed, 27/03/2024

ECB Balance Sheet Long - Term Refinancing Operations

June III Tranche 4 represents EUR 1.308 bln
Tranch 5 represents EUR 174,4 bln



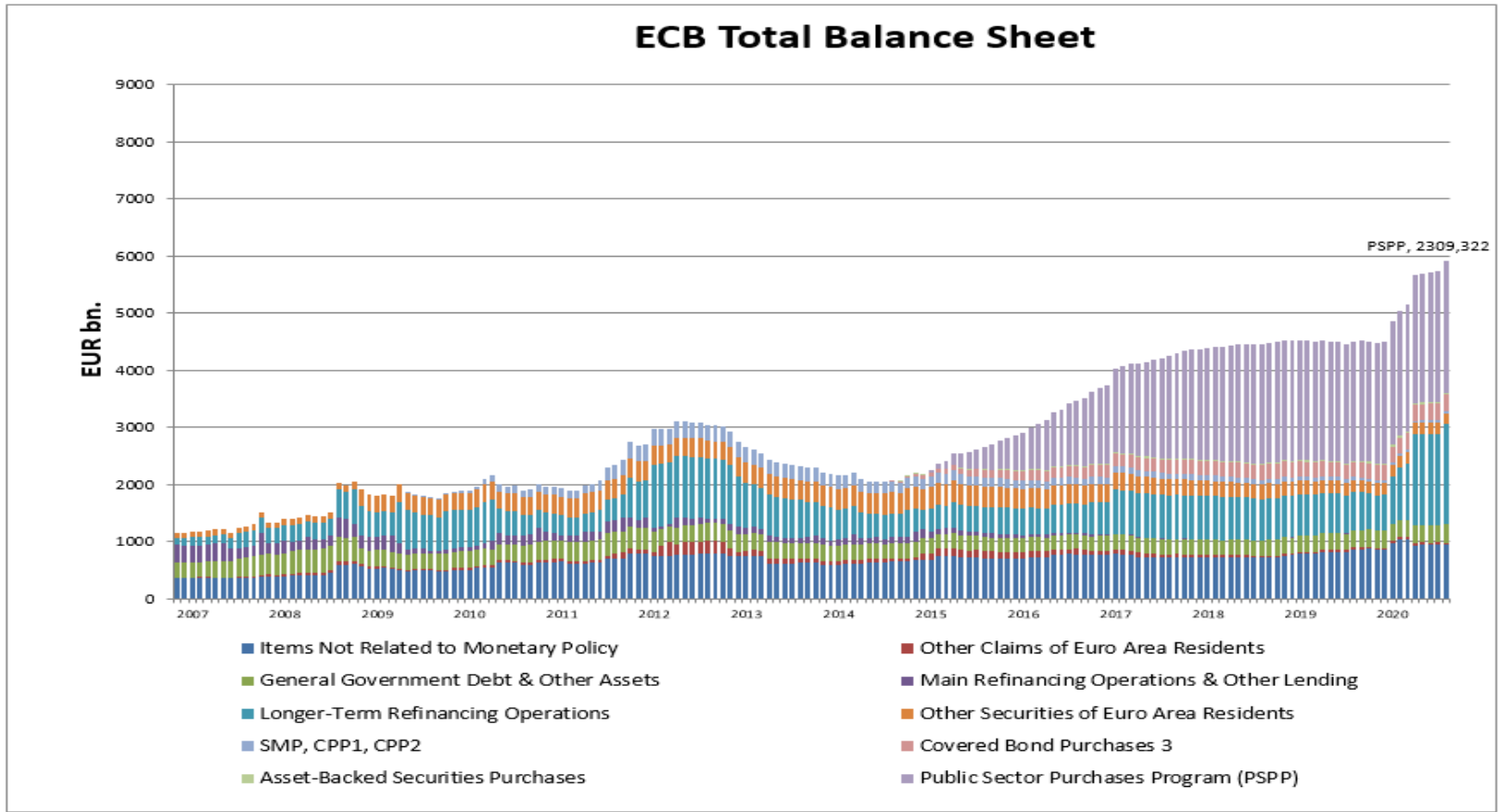
Current basis Central Bank money

Main products : TLTRO III and PSPP

Bloomberg

ECB Total Balance Sheet

Start Date	01.01.2007	Period	Monthly
End Date	17.11.2020		



TLTRO III

TLTRO III General Conditions

special interest rate period” means the period from 24 June 2020 to 23 June 2021;

..... but whose eligible net lending during the second reference period exceeds their benchmark net lending shall be calculated as follows:

.....during the special interest rate period, the interest rate shall be the average interest rate on the deposit facility over that period **minus 50 basis points**. The resulting interest rate shall not, in any case, be higher than minus 100 basis points;

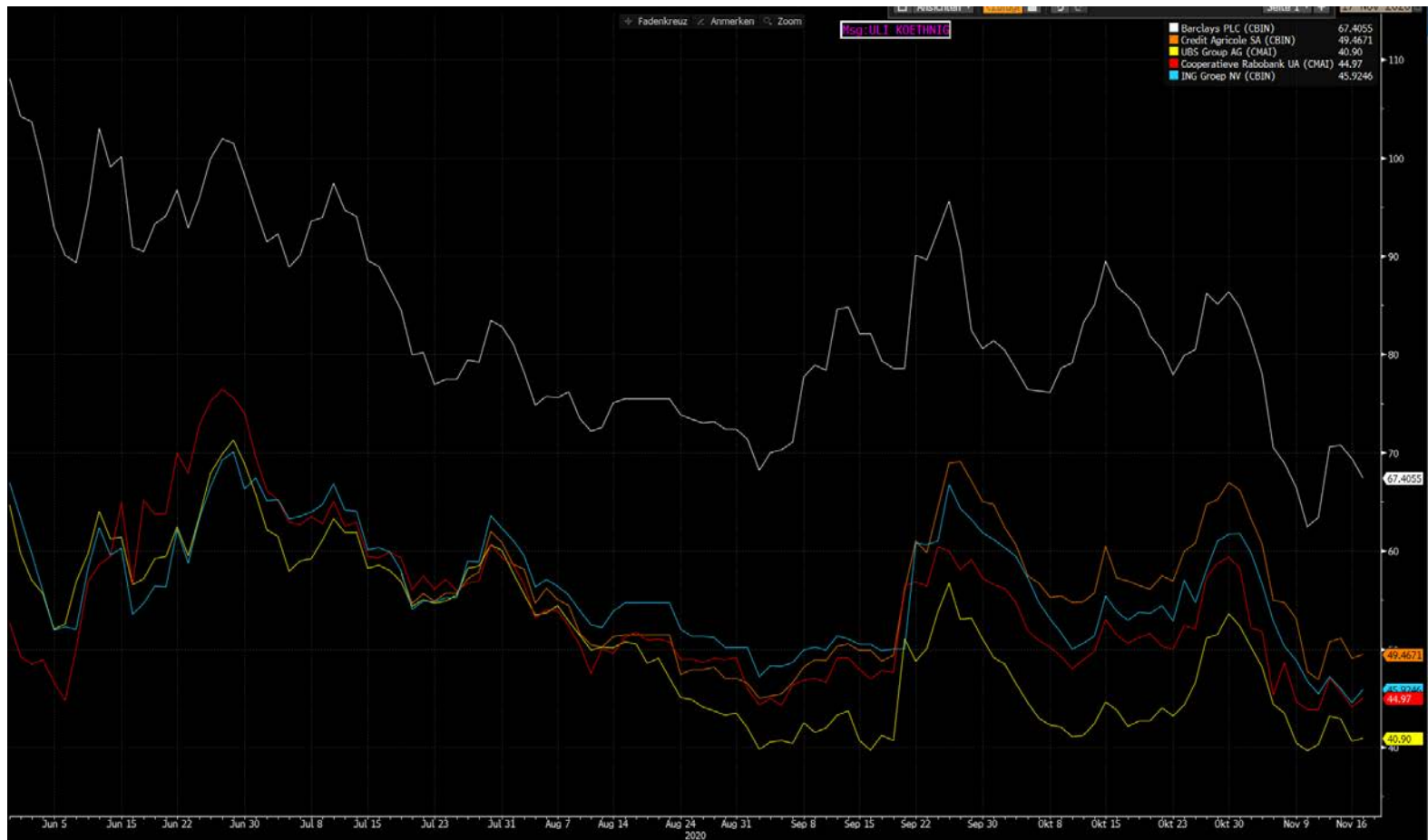
.....during the rest of the life of the respective TLTRO-III, the interest rate shall be the average interest rate on the deposit facility over the life of the respective TLTRO-III

Natural motivations and restrictions for future bidding

	Restrictions	Motivations
General Thoughts	<ul style="list-style-type: none"> – Limitation of overall bidding limit (equal to 50 % stock of eligible loans) – natural restrictions due to the elimination of the special interest advantage through the shortened maturity – concentration risk 3 years 	<ul style="list-style-type: none"> – long-term refinancing instrument – no liquidity premium
Collateral		
HQLA	<ul style="list-style-type: none"> – Liquidity risk measurement: No improvement in economic and regulatory terms – Private repo market activities predominantly cheaper than TLTRO without additional premium (-0.5 %) but no 3 year market available 	<ul style="list-style-type: none"> – avoid short term funding and possible market volatility – -liquidity advantage only if liquidity risk model approach benefits long term repo
Credit Claims/ ACC	<ul style="list-style-type: none"> – limited (new) loan horizon without implemented ACC – heterogeneous level playing field 	<ul style="list-style-type: none"> – very attractive tool to replace classical long term funding – attractive tool to create new business against various loans products (ACC) – avoid capital market set up for regional banks

CDS Spread of above average rated Banks in Europe 5 years (Jun 2020- mid of November 2020)

Unsecured Funding includes Liquidity spreads of minimum 40 bp
TLTRO III/6 remains attractive as an alternative Funding source



Purchase of HQLA Liquidity via Repo Market (GC Pooling 3 Month) is below deposit facility !
TLTRO is less attractive (only 6 month advantage of less than 50 bp)



Market expectation summary:

- TLTRO II 16.12.2020 EUR 8,4 Bln Maturity
- TLTRO III/5 EUR 174,4 bln
- Bidding volume already utilized (?)
- less attractive for HQLA Collateral
- Very attractive for ACC/Credit claims (new business volume ?)

- Expectations for TLTRO III 6 < EUR 100 bln

- One possibility is that TRLTO III maturities or the extra benefit to -1 % from -0,5 % until end of June 2021 are extended further
.....assumptions might be changed !