Access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. Capital Requirements Directive (CRDIV)

2011/0203(COD) - 12/07/2016 - Follow-up document

In accordance with Article 161(9) of Directive 2013/36/EU (“CRD”) and after consulting the European Central Bank (ECB), the European Commission has prepared this report to the European Parliament and Council on the use and benefits of longer-term refinancing operations and similar funding support measures provided by European System of Central Banks (ESCB) to credit institutions between 2011 and 2013.

The central bank funding operations were expected to have a positive impact on the real economy as a whole through increased lending to corporates and households. The longer-term refinancing operations and similar central bank funding support measures assessed by the Commission in this report are refinancing operations with low rates of interest and exceptionally long maturities entailing generally the acceptance of a wider range of eligible collateral. The context of these measures was severe stress on bank funding markets in Europe at that time.

Operations examined: the longer-term refinancing operations and similar central bank funding support measures assessed by the Commission in this report are refinancing operations with low rates of interest and exceptionally long maturities entailing generally the acceptance of a wider range of eligible collateral.

In their mandate the co-legislators also invited the Commission to submit legislative proposals, if appropriate. These proposals would be aimed at **limiting the possible opportunistic use** of central banks' funding support measures by credit institutions.

The Commission analysed four long-term funding support measures:

- (two) 3-year long-term refinancing operations (LTRO) by the European Central Bank;
- Denmark’s National Bank's 3-year loan facilities;
- the Hungarian Central Bank’s 2-year variable rate collateralised loans and;
- the 'Funding for Lending Scheme' by the Bank of England.

In total, the ESCB central banks granted approximately the equivalent of EUR 1080 billion of funding between December 2011 and December 2013. The two ECB 3-year LTROs in December 2011 and March 2012 represented more than 95% of the total longer-term refinancing measures in this period.

Conclusion: the report concluded that the theoretical and practical limits posed by the "fungibility" of funding sources does not allow a reliable identification of the use of ESCB funding support measures by banks.

The methodological problem due to the “fungibility” of funding relates to the fact that it is not possible to "track the money" borrowed by banks from central banks to its ultimate use. The borrowed funding is not earmarked for any specific purpose but is used interchangeably with other sources of funding to support a range of activities.

EBA explained in its report that the "fungibility" problem precluded a precise quantification of the use and benefits of the central banks' funding. Although this method has its merits, unfortunately it does not allow robust conclusions to be drawn on the use and benefits of these long-term refinancing operations.

In order to overcome this "fungibility" constraint, the Commission attempted to develop a more quantitative analysis of changes in the balance sheets of national banking systems during the period when funding support was provided. However, this proved unsuccessful in delivering more detailed reliable insights into the actual use of the LTRO funding support measures by banks in the Eurozone.

Under these condition, the Commission stated that this renders it **impossible to identify and quantify with any degree of confidence the profits attributable to possible opportunistic behaviour by credit institutions** facilitated by such funding support.

In conclusion, there is **no sound empirical basis to justify a legislative proposal** from the Commission to the European Parliament and Council on this subject.

Lastly, the Commission notes and indeed welcomes the fact that the more recent ECB Targeted LTRO program provides incentives for banks to lend to the non-financial private sector.