**Change Request**

**for the update of an External Code Set used in ISO 20022**

1. **Origin of the request:**

*A.1 Submitter*: Deutsche Bundesbank on behalf of the Eurosystem / 4CB

*A.2 Contact person:*

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*A.3 Sponsors*: none

1. **Related External Code Set:**

ExternalSystemBalanceType1Code

1. **Description of the change request:**

Add following codes to the set:

|  |  |  |
| --- | --- | --- |
| Code | Code Name | Definition |
| EXRE | Excess Reserve Exemption Threshold (exempt tier) | The code defines the threshold to the value excess reserve exemption balance between the exempt and non-exempt tiers of excess reserve. |
| EXRR | Excess Reserve Remuneration Balance (non-exempt tier) | The code defines the balance beyond excess reserve exemption threshold within the periodic average balance for minimum reserve. Thus, this part of the excess reserve is still to be remunerated. |

1. **Purpose of the change:**

The Governing Council of the European Central Bank (ECB) has decided to introduce a two-tier system for reserve remuneration, which exempts part of credit institutions’ excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from current negative remuneration at the rate applicable on the deposit facility.

All credit institutions subject to minimum reserve requirements under Regulation ECB/2003/9 will be eligible for the two-tier system. The two-tier system will apply to excess liquidity held in current accounts with the Eurosystem but will not apply to holdings at the ECB’s deposit facility. The volume of reserve holdings in excess of minimum reserve requirements that will be exempt from the deposit facility rate – the exempt tier – will be determined as a multiple of an institution’s minimum reserve requirements.

Eurosystem is asked to report the Excess Reserve Exemption Threshold (exempt tier) and Excess Reserve Remuneration (non-exempt tier) balance in camt.004 messages together with other codes from the ExternalSystemBalanceType1Code relevant for minimum reserve fulfilment (BLCK, ADJT, PRAV).

Graphical illustration of the new requirement:

InterestRate_MRR

**Urgency of the request:**

No urgency

1. **Business examples:**

For those credit institutions, using an intermediary to fulfil their minimum reserve requirements, the following example shall illustrate the requested change:

Bank A manages its minimum reserve requirements through an intermediary (Bank B). Bank A and B have minimum reserves requirements of 100 and 400 respectively. At the end of **each maintenance period, the holdings on all accounts of Bank A will be considered as (non-**exempt) excess reserve holdings and are to be remunerated accordingly (at the remuneration rate for the non-exempt tier of excess liquidity holdings).

The holdings on the account(s) of Bank B will be tiered into

a) minimum reserve holdings: up to and including 500 (400 + 100 = 500),

b) exempt tier of excess liquidity holdings: from 500 onwards up to and including 3.500 (500 \* 6 = 3.000) and

c) non-exempt tier of excess liquidity holdings: all holdings above 3.500.

At the end of the maintenance period, the holdings of Bank B are to be remunerated accordingly at the minimum reserve remuneration rate applicable to tier a), the remuneration rate for the exempt tier of excess liquidity holdings applicable to tier b) and the remuneration rate for the non-exempt tier of excess liquidity holdings applicable to tier c).

Example for the calculation with the **current** rates:

Periodic average balance of the MFI: 1,000,000 EUR

Minimum reserve requirement of the MFI: 100,000 EUR

Factor for calculation of the excess reserve exemption amount (“n”): 6

MRO (minimum reserve obligation) interest rate: 0.00% => to be applied for 100,000 EUR

New excess reserve exemption interest rate: 0.00% => to be applied for 600,000 EUR (6\*100,000 EUR)

Excess reserve interest rate (deposit facility rate): -0.40% => to be applied for 300,000 EUR (1,000,000 - 100,000 - 600,000 EUR)

Camt.004 Multilateral Balance block:

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1. **SEG recommendation:**

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| --- | --- | --- | --- |
| **Accept** | | X | **Timing** |
|  | | - **Next possible quarterly release** | | X |
|  | | - **Other timing:** | | |  |

Comments: Approved by the Payments on 8 June 2020.

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| --- | --- |
| **Reject** |  |

Reason for rejection: