



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

PRESS RELEASE

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ECB launches public consultation on a draft guidance on leveraged transactions

- ECB publishes its draft guidance to banks on leveraged transactions for consultation
- Consultation period runs from today until 27 January and includes a bank technical workshop on 16 December and a public hearing on 20 January
- Guidance aims at ensuring safe and sound origination and distribution practices to contribute to a smooth financing of the real economy

The European Central Bank (ECB) today launches a public consultation on a draft guidance to develop clear and consistent definitions, measures and monitoring with regard to leveraged transactions.

Globally, leveraged finance markets have experienced a strong recovery since the crisis and are characterised by increased competition between banks and other market participants in a context of search for yield strategies. Although an ECB survey of banks in the euro area showed that they are on average not as active in leveraged transactions as banks in other jurisdictions, leveraged financing has picked up again since 2009, warranting a closer look at how banks manage such exposures. The quality of credit standards is – in this context and in the long run – a key supervisory point of attention.

The survey also showed significant differences between banks' approaches to define, measure and monitor leveraged transactions.

The guidance recommends banks to put in place a unique and overarching definition of leveraged transactions and clearly define their strategy for leveraged transactions and appetite for underwriting and

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syndicating of the latter. Banks should further make sure, through a solid credit approval process and regular monitoring of leveraged portfolios, that realised transactions adhere to their risk appetite standards. Finally, the banks' senior management is expected to be a regular recipient of comprehensive reports about leveraged transactions.

Leveraged transactions are an important part of the financing of economies. By ensuring safe and sound origination and distribution practices – through the adherence to this guidance – banks will contribute to a smooth financing of the real economy.

The guidance is non-binding and of qualitative nature. Consultation starts today and ends on 27 January. The relevant documents, comprising the guidance and a FAQ are available on the ECB's Banking Supervision website.

The ECB will hold a public hearing as part of this consultation on 20 January 2017, at its premises in Frankfurt am Main. The hearing will be webcast on the ECB's Banking Supervision website. Information on registering for the public hearing and on how to submit comments can also be found on the website. Following the public consultation the ECB will publish the comments received, together with a feedback statement.

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