



Second Pool Conditions

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DeNederlandscheBank

EUROSYSTEM

Second Pool Conditions

De Nederlandsche Bank NV

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Unofficial translation:

In the event of interpretation differences between the Dutch and the English text, the Dutch text prevails

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Article 1 - General

1. De Nederlandsche Bank (DNB) has two types of collateral pools:
 - (a) the monetary collateral pool (hereinafter: the 'Monetary Pool') and
 - (b) the second collateral pool (hereinafter: the 'Second Pool').The Monetary Pool consists of assets administered by DNB in an account designated as 'Monetary Pool'. These assets serve primarily as security for claims in respect of monetary policy transactions and intraday credit. In the event of enforcement the proceeds of the assets in the Monetary Pool will be used first of all to pay claims arising from monetary policy transactions and intraday credit. Insofar as a surplus exists after payment of the claims from these proceeds, it will be used for the settlement of claims which do not arise from or relate to monetary policy transactions and/or intraday credit. In addition to the Monetary Pool, counterparties may establish a second collateral pool (the 'Second Pool'). The assets in the Second Pool are primarily intended as security for claims which do not arise from or relate to monetary policy transactions and/or intraday credit. These are mainly claims arising from other services of DNB. The proceeds of the Second Pool will accordingly be used first of all to pay claims arising other than from monetary policy transactions or intraday credit. Insofar as a surplus exists after payment of the claims from these proceeds, it will be used for the settlement of claims arising from monetary policy transactions or intraday credit.
2. In the context of the other services rendered in exchange for the provision of collateral, the counterparty's entire Second Pool will serve as collateral for the claims arising from the non-monetary/intraday services and for other claims payable to DNB by the counterparty now or in the future on any grounds whatsoever. Hence there is no direct relationship between a specific claim of DNB and a specific asset included in the Second Pool.
3. The only assets, including money within the meaning of Section 7:51 under (d) of the Dutch Civil Code, which may be included in the Second Pool are those that meet the eligibility criteria specified in these Conditions. The procedural rules, methods, timelines and operating arrangements specified in these Conditions apply to the Second Pool.
4. Any reference in these Conditions to a pool, collateral pool or collateral account means the Second Pool. References to collateral or security mean assets in the Second Pool that serve primarily as security for claims arising from non-monetary/intraday services as well as for other claims payable to DNB by the counterparty now or in the future on any grounds whatsoever. Eligible assets mean assets which fulfil the eligibility criteria specified in Article 3 of these Conditions.
5. DNB will decide at its sole discretion what type or types of collateral pool the counterparty should keep with DNB.

Article 2 – Security to be provided by DNB's counterparty

As security for the payment of its obligations as referred to in the Agreement (of which these Conditions form an integral part) the counterparty is obliged to deposit a sufficient amount of eligible assets in the counterparty's Second Pool kept with DNB.

Article 3 – Eligibility criteria

Section 3.1 – Eligibility criteria - general

1. The Second Pool may include only marketable and non-marketable assets which fulfil:
 - (a) the eligibility criteria adopted and published by the ECB and applicable throughout the euro area, and
 - (b) DNB's additional eligibility criteria as specified in section 3.3.
2. DNB is entitled at all times to amend the additional eligibility criteria referred to at (b) above. Clause 25, sections 2 and 3, of the General Terms and Conditions of DNB apply to such amendments. In the event of an amendment, DNB will publish the amended additional eligibility criteria on its website at www.dnb.nl.
3. Marketable assets have been included in the list of eligible assets published and updated daily by the ECB. No list of non-marketable assets is published either by the ECB or by DNB.

Section 3.2 – Eurosystem eligibility criteria

The criteria which the Eurosystem applies to the eligibility of assets are described in Part Four of the Guideline of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/ 2014/60) (as amended from time to time) (hereafter 'The Guideline'), which part is hereby

declared applicable in its entirety. Furthermore, the articles on valuation haircuts¹ included in ECB Guideline ECB/2015/352 (as amended from time to time) are applicable in their entirety.

Section 3.3 – Additional DNB eligibility criteria

DNB applies the following additional eligibility criteria to collateral intended to be included in the Second Pool:

1. Marketable assets are eligible only if they have a minimum rating of A-3.
2. Debts instruments of countries that do not fulfil the minimum rating requirement of the Eurosystem but for which a waiver has been granted by the ECB are not eligible.
3. Assets denominated in a currency other than the euro are not eligible.
4. Unsecured debt instruments which have been issued by banks are not eligible, even if these debt instruments are guaranteed by a public sector entity that has the right to levy taxes.
5. Credit claims are eligible only if they have been guaranteed by a public sector entity that has the right to levy taxes.
6. Assets which are accepted by the Eurosystem additionally and on a temporary basis in the context of the monetary collateral framework are not eligible.
7. Fixed-term deposits, as described at article 12 of the Guideline, of eligible counterparties are eligible only after a duly signed statement in accordance with the model included in Annex IV to the Monetary Policy Transactions Conditions has been lodged with DNB. If a counterparty has lodged a signed statement, the related fixed-term deposit will be placed in the Monetary Pool when a liquidity-absorbing tender is executed unless indicated otherwise. The fixed-term deposits may only be placed in their entirety in the Monetary Pool or the Second Pool. If they are placed in the Second Pool and are actually used as collateral for obligations, DNB will require new collateral to be provided 24 hours before the expiry of the fixed-term deposit in order to prevent a margin call.

Section 3.4 – Close links

1. No assets may be submitted as collateral which have been issued or guaranteed by the counterparty itself or by any other entity with which it has close links.⁴ If a counterparty uses assets which, as a consequence of a merger or the existence of close links between the counterparty and the entity which has issued or guaranteed the assets, may not be used as collateral, the counterparty concerned will be obliged to give immediate notice of this to DNB. On the next valuation date, DNB will then value these assets at zero and, if a margin call is triggered, will notify the counterparty accordingly.
2. If the ineligibility is caused by the fact that the assets have been removed from the eligibility list, the counterparty will be required to withdraw such assets from the asset pool as quickly as possible but no later than seven calendar days after such removal. If the counterparty can no longer use the assets because close links have arisen as a result of a merger or acquisition, the counterparty is once again required to withdraw the assets from the asset pool as quickly as possible, but no later than seven calendar days after the close links arise. The removal of the assets may be effected by withdrawal (from the collateral pool, provided sufficient assets remain as collateral for claims of DNB) or by replacement.

¹ The valuation haircuts as defined in Article 2 (97) of the Guideline.

² ECB website: http://www.ecb.europa.eu/ecb/legal/pdf/en_dec_2015_35f.pdf

³ Marketable assets with an external rating are posted in daily updated form by the ECB on its website www.ecb.europa.eu, under the heading Payments & Markets / Collateral / List of eligible marketable assets). Assets can be searched for individually and there are options for downloading files.

⁴ For an explanation of the term 'close links' see article 27 of the Monetary Policy Transactions Conditions.

Article 4 – Asset-backed securities

Section 4.1 – Statement concerning close links

1. If a counterparty wishes to submit asset-backed securities (ABS) as collateral, it is required to declare in a written statement whether all conditions relating to close links have been fulfilled in relation to the ABS. For the sake of brevity, reference should be made to Annex III to the Monetary Policy Transactions Conditions for the criteria governing close links and for the model statement concerning close links.
2. Nor may a counterparty submit ABS as collateral if it (or a third party with which it has close links) also provides a currency hedge by means of a currency hedge transaction with the issuer as a hedge counterparty, or provides liquidity support as defined in article 142 of The Guideline.

Section 4.2 – Information requirements for asset-backed securities

1. Various information requirements apply to ABS. The following are relevant in assessing the eligibility of these ABS:
 - the prospectus
 - the rating agency's new issue report
 - rating letters
 - information showing that the assets are listed on a stock exchange
 - a legal opinion confirming that there is a true sale of the cash-flow-generating assets under the law of an EU member state
 - latest investor reports
 - swap confirmations/agreements
 - servicing agreements
 - sale agreements
 - security agreements⁵
 - authorised investment agreements/declarations⁶.
2. It is also necessary for this information to be supplied to DNB in either Dutch or English (whether or not on request), since it is otherwise impossible to determine the eligibility.
3. If ABS are to be or remain eligible, DNB requires comprehensive and standardised loan-level data on the pool of assets underlying an ABS, to be submitted by the relevant parties in accordance with Annex VIII of the Guideline.
4. In assessing the eligibility of ABS, DNB takes into account the data entered in the mandatory fields of the relevant loan-level data reporting template within the meaning of Annex VIII of the Guideline. In its eligibility assessment DNB takes into account: (a) any failure to supply data and (b) how frequently individual loan-level data fields are found to contain no meaningful data.
5. DNB reserves the right to request from any relevant third party such as the issuer, the originator or the arranger, any clarification and/or legal confirmation that it considers necessary in order to assess the eligibility of ABS and with regard to the provision of loan-level data. Failure to comply with such requests may lead to suspension of or refusal to grant eligibility to the ABS transaction in question.

Article 5 – Non-compliance with rules for the use of eligible assets

Section 5.1 – General

1. If the counterparty fails to comply with the rules governing the use of eligible assets, DNB will impose a financial penalty. A failure to comply with the rules on the use of eligible assets will be deemed to occur where a counterparty uses assets which, as a consequence of a merger or the existence of close links between the counterparty and the entity which has issued or guaranteed the assets, may not – or may no longer – be used as collateral or which are no longer eligible or may no longer be used as the result of a specific event. The penalty provisions also apply if a counterparty uses assets which are not eligible or has

⁵ The relevant legal instruments granting security interests in all of the issuer's and, if applicable, any intermediary's assets (including, but not limited to, the cash-flow generating assets) in favour of e.g. the security trustee and for the benefit of, inter alia, the note holders (examples of security agreements include security trust deed, deed of charge and deed of pledge, etc.).

⁶ Investment management agreements may be necessary where a third party manages the portfolio of cash-flow-generating assets on behalf of the issuer (for example the originator /seller of the cash-flow generating assets). An authorised investment agreement sets out the mutual rights and obligations of the investment manager and the issuer relating to the cash-flow-generating assets and the management of the portfolio.

provided information that leads to an incorrect valuation of the collateral, for example information on the outstanding amount of a credit claim which is or was false or out of date.

2. In assessing a case of non-compliance, DNB will take account of any reasons given by the counterparty for the non-compliance.

Section 5.2 – Procedure in the event of non-compliance with rules governing the use of eligible assets

1. A financial penalty is imposed in the event of non-compliance with rules governing the use of eligible assets. The penalty is calculated using the marginal lending rate that applies at the start of the non-compliance, plus 2.5 percentage points. The calculation is based on the amount of ineligible assets – or, as the case may be, assets which the counterparty was not (or was no longer) entitled to use – supplied by the counterparty to DNB or not removed by the counterparty by or before the start of the eighth calendar day following an occurrence that brings about that the eligible assets cease to be eligible or, as the case may be, may no longer be used by the counterparty, multiplied by the coefficient $X/360$, where X is the number of calendar days (subject to a maximum of seven) during which the counterparty failed to comply with the rules on the use of eligible assets. A flat-rate penalty of EUR 500 applies if the calculation results in an amount of less than EUR 500.
2. If the assets are or become ineligible as a consequence of a merger between the counterparty and the institution which has issued or guaranteed the assets, the grace period of seven calendar days is calculated from the date on which the merger became legally binding and final.
3. If the assets are or become ineligible as a consequence of close links which are established after the date on which the relevant assets were supplied to DNB, the grace period of seven calendar days is calculated from the date on which the close links were established.
4. If the ineligibility is a consequence of the fact that the assets in question have been removed from the list of eligible assets after the date on which they were supplied to DNB, the grace period of seven calendar days is calculated from the date on which the assets were removed by the ECB from the list of eligible assets.

Section 5.3 – Example of the calculation of a financial penalty

A random check by DNB reveals that for four days counterparty X has failed to remove assets issued by an institution with which it has close links. The assets have a market value of EUR 27 million on the first day of non-compliance. The marginal lending rate is 2.25%. The following penalty is therefore imposed on counterparty X: $27,000,000 \times (2.25 + 2.5)/100 \times 4/360 = \text{EUR } 14,250$.

Article 6 – Admission of the marketable assets to trading on certain markets

In accordance with the provisions of article 68 of The Guideline marketable assets must have been admitted to trading on a regulated market as defined in Directive 2004/39/EG of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments⁷, or be traded on certain non-regulated markets as specified by the ECB⁸. The assessment of non-regulated markets by the Eurosystem is based on three principles – safety, transparency and accessibility⁹.

Article 7 – Creation of a valid security right on non-marketable assets¹⁰

With regard to the creation of a valid security right on non-marketable assets, articles 20 and 21 to the Monetary Policy Transactions Conditions (including the relevant footnotes) apply *mutatis mutandis*.

⁷ OJ L 145 of 30.4.2004, p. 1.

⁸ A list of accepted non-regulated markets is posted on the ECB's website (www.ecb.europa.eu) and updated at least once a year.

⁹ Safety, transparency and accessibility are defined by the Eurosystem exclusively in terms of the performance of the Eurosystem's collateral management function. The selection process is not aimed at assessing the intrinsic quality of the various markets. The principles can be understood as follows. Safety is taken to mean certainty with regard to transactions, in particular certainty on the validity and enforceability of transactions. Transparency is taken to mean unimpeded access to information on the market's rules of procedure and operation, the financial features of the assets, the price formation mechanism, and the relevant prices and quantities (quotes, interest rates, trading volumes, outstanding amounts, etc.). Accessibility refers to the Eurosystem's ability to take part in and have access to the market; market is accessible for collateral management purposes if its rules of procedure and operation allow the Eurosystem to obtain information and conduct transactions when needed for these purposes.

¹⁰ This section does not relate to Irish Retail Mortgage-Backed Debt Instruments (RMBDs) or to fixed- term deposits.

Article 8 – Conditions for acceptance of non-euro denominated collateral

With regard to the conditions for acceptance of non-euro denominated collateral, article 26 of the Monetary Policy Transactions Conditions (including the relevant footnotes) applies *mutatis mutandis*.

Article 9 – Submission of assets

- Assets may only be submitted as collateral by means of pledging or transfer in the context of a financial collateral arrangement (non-marketable assets only). In order to deposit collateral in the Second Pool, a counterparty must send an instruction to DNB, in principle, by SWIFT message.
- DNB uses the following types of SWIFT message for administering the Second Pool:

MT202	General Financial Institution Transfer
MT204	Financial Markets Direct Debit Message
MT535	Statement of Holding
MT540	Receive Free (to receive assets free of payment)
MT542	Deliver Free (to deliver assets free of payment)
MT544	Receive Free Confirmation
MT546	Deliver Free Confirmation
MT548	Settlement Status and Processing Advice
MT564	Corporate Action Notification (message referring to a coupon, redemption or modification in the terms of the loan)
MT565	Corporate Action Instruction – Instruction on corporate actions for bonds safe kept at Euroclear Bank Brussel.
MT56811	Corporate Action Narrative (additional data for a coupon, redemption or modification in the terms of the loan)
MT598	Proprietary Message (message specified by DNB)
MT599	Free Format Message

For the accompanying templates see DNB's website (www.dnb.nl) at 'Payments', 'Tasks DNB', 'Collateral Management', scroll to 'Downloads' and select 'ECMS SWIFT templates'.

- Specific rules apply to the submission as collateral of non-marketable assets such as credit claims. Counterparties are required to supply documentation on the credit claims digitally and via a secure email link. For information about the other rules, such as the criteria set for the master deed of assignment, the supplementary deed of assignment and the deed of reassignment, reference should be made to the Annexes VII, VIII and IX to the Monetary Policy Transactions Conditions.
- Marketable assets may be pledged by book entry in DNB's name in DNB's securities account with Euroclear Bank S.A./N.V., Brussels, for inclusion in the counterparty's collateral account with DNB. Subsequently DNB will register these assets as Second Pool assets. The claim of the counterparty on DNB regarding these assets has been pledged to DNB on the basis of Articles 9-11 of DNB's General Conditions.
- DNB will process such book entries (after receipt of the book-entry confirmation) on business days from 09.00 to 17.00 hours, as well as on a number of public holidays¹².

¹¹ MT568 information is generally sent via email.

¹² Assets may be deposited in the counterparty's collateral account on public holidays on which TARGET2-NL is open for business (see the Conditions for TARGET2-NL for a list of these days). However, on these days DNB will process the book entries only between 10.00 and 16.00 hours.

6. The processing of book entries will include verification of the eligibility of the assets. If the assets fail this verification test, DNB will inform the counterparty accordingly.

Article 10 – Return of assets

1. A counterparty wishing to withdraw assets from its collateral account with DNB must instruct DNB accordingly, preferably by means of a SWIFT message as described above in Article 9, section 2.
2. If, as a result of withdrawal instructions, the remaining assets would be insufficient to cover DNB's claims vis-à-vis the counterparty in respect of other services, DNB will not process the instructions. DNB will inform the counterparty of this situation. In such cases the withdrawal instructions can be processed only if the counterparty furnishes liquidity, transfers additional assets or changes the withdrawal instructions.
3. The above will also apply if it is found, after recalculation of the value, that the value of the assets is insufficient in comparison to the sum of DNB's claims vis-à-vis the counterparty in respect of other services.

Article 11 – Eurosystem Credit Assessment Framework (ECAF)

Title Five of Part 4 of the Guideline and article 24 of the Monetary Policy Transactions Conditions (including the relevant footnotes) regarding the Eurosystem Credit Assessment Framework (ECAF) apply *mutatis mutandis*.

Article 12 – Risk control measures

With regard to risk control measures, article 25 of the Monetary Policy Transactions Conditions, with the exception of articles 112 and 141 of the Guideline, applies *mutatis mutandis*. Furthermore Title VI of part Four of the Guideline and the separate Guideline ECB/2015/35 (as amended from time to time) on valuation haircuts are applicable in their entirety.

Article 13 – Fees and charges

DNB charges fees for the safekeeping and administration of assets. It also charges transactions costs.

Article 14 – Safekeeping and administrative acts¹³, including coupon payments, redemptions and taxes

With regard to safekeeping, administrative acts and taxes, article 15 of the Monetary Policy Transactions Conditions (including the relevant footnotes) applies *mutatis mutandis*.

Article 15 – Interest

Unless otherwise agreed or unless a different arrangement applies, collateral held in the form of money within the meaning of Section 7:51 under (d) of the Dutch Civil Code paid into a DNB account set up for that purpose shall be remunerated at zero per cent or the deposit facility rate, whichever is lower. In the event that the lower interest rate is negative, the negative interest rate entails a payment obligation of the Counterparty. DNB has the right to *inter alia* set off the amount due.

Article 16 – Adjusted contingency procedures

With regard to adjusted contingency procedures, part 6 of the Monetary Policy Transactions Conditions (including the relevant footnotes) applies *mutatis mutandis*.

¹³ The term administrative acts is used here in the sense of corporate actions or corporate events.

Article 17 – DNB’s addresses

Telephone and fax number and e-mail address	Subject
020 – 524 3696 collateral_management@dnb.nl	Questions about securities settlement
creditclaim@dnb.nl	Questions about mobilisation of credit claims
020 – 524 2450 collateral_management@dnb.nl	Questions about asset eligibility
020 – 524 6186	Delivery of deposit instructions by fax message
020 – 524 3900	Delivery of TARGET2-NL transfer instructions by encrypted fax message
020 – 524 3564	Questions about transfers in TARGET2-NL
020 – 524 6163/3624	Questions about the Eurosystem Credit Assessment Framework (ECAAF)
020 – 524 3269	Questions about the collateral framework

SWIFT address	Subject
ECMSNL2ACCB	Address for depositing collateral, etc.

Information	Internet address	To retrieve information from the website
General Terms and Conditions	www.dnb.nl	Under 'About DNB' on the home page, then 'Organisation', click on 'Act and regulations', see under 'Downloads': https://www.dnb.nl/en/about-dnb/organisation/wetten-en-regelgeving/index.jsp
Monetary Policy Transactions Conditions	www.dnb.nl	Under 'Interest rates and inflation' on the home page, click on 'Monetary policy' and then on 'Information for counterparties'
Conditions for TARGET2-NL	www.dnb.nl	Under 'Payments' on the home page, click on 'Tasks DNB', then on 'TARGET2 and T2S', 'Registration', scroll to 'Downloads' go to 'Legal documentation' click on 'Legal documentation on TARGET2': https://www.dnb.nl/en/payments/other-tasks/target2/for-professionals/juridische-documentatie/index.jsp
Eligible collateral	www.ecb.europa.eu	'Payment & Markets', Collateral, List of eligible marketable assets
SWIFT templates	www.dnb.nl	https://www.dnb.nl/en/payments/other-tasks/collateral-management/index.jsp
Acceptable markets	www.ecb.europa.eu	'Payments & Markets', 'Collateral', 'Eligibility criteria and assessment', 'marketable assets', 'Acceptable markets'.