



EUROPEAN CENTRAL BANK
EUROSYSTEM

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COURTESY TRANSLATION

Mario DRAGHI
President

Mr Notis Marias
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 5 April 2016

L/MD/16/165

Re: Your letter (QZ-018)

Honourable Member of the European Parliament, dear Mr Marias,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 2 March 2016.

Since March 2015, the Eurosystem has been buying eligible sovereign and private sector bonds at a pace of on average, EUR 60 billion per month under the expanded asset purchase programme (APP). The two largest programmes under the APP so far are the public sector purchase programme (PSPP) and the third covered bond purchase programme (CBPP3). Both the PSPP and the CBPP3 are implemented in a decentralised manner by the Eurosystem, which means that the Bank of Greece is also actively involved in the APP with its set of purchases. The smallest programme under the APP is the asset-backed securities purchase programme (ABSPP), which is implemented in a more centralised manner, with asset managers purchasing asset-backed securities (ABS) on the instructions of the European Central Bank (ECB).

In order to be eligible for purchase under the APP, bonds need to meet strict criteria. First, as a rule they need to be eligible as collateral for monetary policy operations, as specified in Guideline

Address

European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address

European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

ECB/2014/60¹. Second, they must satisfy certain additional requirements, depending on the specific programme under which they are to be purchased.

In particular, in order to be eligible as collateral and for purchase under the PSPP and CBPP3, at least one of the bond ratings, as rated by one of the credit rating agencies accepted by the ECB, should, as a rule, be investment grade (BBB- or equivalent, or above). In the case of government-linked assets, this rating requirement can be waived by the Governing Council if the country of the government issuing or guaranteeing such assets is under a financial assistance programme which is “on track”. This is provided for in Article 8 of Guideline ECB/2014/31² which applies to eligibility under both the Eurosystem’s collateral framework and the PSPP. In case of bonds issued in Greece (and in Cyprus) which carry no investment-grade rating, additional requirements must be satisfied in order to achieve risk equivalence; this allows certain of these covered bonds to be eligible for purchase under the CBPP3.³ In the case of purchases of asset-backed securities (ABS) under the ABSPP, two credit assessments on an asset basis corresponding to credit quality step 3 in the Eurosystem credit assessment framework (BBB- or equivalent) are required, and additional eligibility criteria as specified in Article 2 of Decision ECB/2014/45⁴ apply. Furthermore, prior to the purchase of any ABS fulfilling the eligibility criteria, the ECB conducts a credit risk assessment and due diligence of the ABS, as set out in Article 3 of Decision ECB/2014/45. For ABS with no investment grade rating, where the obligors of the cash-flow generating assets are located in Greece or Cyprus, additional requirements must be satisfied in order to achieve risk equivalence (see Article 2(8) of Decision ECB/2014/45).

According to Guideline ECB/2014/60 mentioned above, and as can be seen in the list of eligible marketable assets that the ECB publishes daily on its website (except on TARGET2 closing days)⁵, Deutsche Bank covered bonds are eligible as collateral and for purchase under the CBPP3. As in the case for any eligible bond, these covered bonds must comply with the eligibility criteria described above and laid out in the Decision on the implementation of the CBPP3 (ECB/2014/40, referred above). The Eurosystem publishes aggregated data on the progress of the APP on a weekly and monthly basis.⁶ Purchases of individual private issuers’ bonds and transaction prices are not disclosed for confidentiality reasons. Therefore, the ECB cannot answer your question on whether Deutsche Bank bonds have been

¹ Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60), available on the ECB’s website at: https://www.ecb.europa.eu/ecb/legal/pdf/oj-jol_2015_091_r_0002_en_txt.pdf

² Guideline on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (ECB/2014/31), available on the ECB’s website at: https://www.ecb.europa.eu/ecb/legal/pdf/ecb_2014_31_f_signed.pdf

³ See Article 2 of the ECB’s Decision on the implementation of the third covered bond purchase programme (ECB/2014/40), available on the ECB’s website at https://www.ecb.europa.eu/ecb/legal/pdf/oj-jol_2014_335_r_0010-en-txt.pdf

⁴ Decision on the implementation of the asset-backed securities purchase programme (ECB/2014/45), available on the ECB’s website at: https://www.ecb.europa.eu/ecb/legal/pdf/en_ecb_2014_45_f_sign.pdf

⁵ See <http://www.ecb.europa.eu/mopo/assets/html/index.en.html>

⁶ See the dedicated page on the ECB’s website at <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>

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purchased under the APP, and at what prices. Finally, let me inform you that all APP purchases are subject to rigorous audit checks to make sure that the prices at which transactions are conducted are in line with prevailing market prices.

Yours sincerely,

[signed]

Mario Draghi

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