



EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Matt Carthy

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 13 April 2015

L/MD/15/224

Re: Your letter (QZ-28)

Honourable Member of the European Parliament, dear Mr Carthy,

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 16 February 2015.

Let me first point out that our website now offers additional information on the programme that addresses several of your questions, in particular those that relate to the technical implementation of the public sector purchase programme (PSPP) and the allocation of purchases across jurisdictions.¹

Our purchases under the expanded asset purchase programme (APP) work through a number of different channels, which will support the economic recovery and contribute to a sustained return of inflation towards a level below, but close to, 2% over the medium term, also underpinning the firm anchoring of inflation expectations. As to the details of these channels, I would like to refer you to the letter I sent to your colleague MEP Chambon on 15 March 2015.²

Please also note that the ECB's purchases under the PSPP will be allocated to the various euro area countries on the basis of the ECB's capital key, in accordance with issuer residence.

Among the eligibility criteria is the requirement to have a first-best credit assessment (rating) from an external credit assessment institution (rating agency) of at least credit quality step 3 in the Eurosystem's harmonised

¹ For reference, please see <http://www.ecb.europa.eu/mopo/liq/html/pspp.en.html>

² Available on the ECB's website: http://www.ecb.europa.eu/pub/pdf/other/150311letter_chambon.en.pdf

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rating scale³ for the issuer or the guarantor. As an exception to these rules, the Governing Council has decided that some of the standard criteria determining the eligibility of collateral for the purposes of Eurosystem monetary policy operations – more specifically those regarding the credit quality thresholds applicable to marketable debt instruments – may be temporarily suspended with respect to assets issued or fully guaranteed by the central governments of euro area Member States under a European Union/International Monetary Fund programme. According to Article 8(2) of Guideline ECB/2014/31, this suspension is granted provided that the respective Member State complies with the conditionality of the financial support and/or the macroeconomic programme, in other words, that the programme is “on track”. The rationale for this rule is that the full implementation of a programme designed and monitored by the European Commission, in liaison with the ECB, and the IMF, creates the prospect that government-related assets will regain the quality standard required to be eligible as collateral assets for Eurosystem monetary policy operations.

Bonds issued by the European Investment Bank (EIB) as well as other international and supranational institutions and agencies will be eligible for purchase on the secondary market under the PSPP provided they fulfil the necessary eligibility requirements.⁴

As to hypothetical losses, purchases of securities of international or supranational institutions located in the euro area (12% of the allocation in PSPP) will be subject to loss sharing, as will the ECB’s purchases under the PSPP (8% of the additional asset purchases). This implies that 20% of the additional asset purchases will be subject to a regime of risk sharing. The rest of the NCBs’ asset purchases under PSPP will not be subject to loss sharing, and therefore would have to be carried by the respective NCBs themselves. How these losses would be dealt with may vary from NCB to NCB.

Yours sincerely,

[signed]

Mario Draghi

³ Defined as a minimum long-term rating of ‘BBB-’ by Fitch or Standard & Poor’s, of ‘Baa3’ by Moody’s, or of ‘BBB-’ by DBRS.

⁴ The initial list of international or supranational institutions located in the euro area and of agencies located in the euro area whose securities are eligible for the PSPP is available on the ECB’s website: <http://www.ecb.europa.eu/mopo/liq/html/pspp.en.html>

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