



EUROPEAN CENTRAL BANK

EUROSYSTEM

Teemu Peltoniemi
Market Operations Analysis
European Central Bank

ABSPP and CBPP3

Overview of the Eurosystem asset purchase programmes and their implementation

Introduction

- 1 Background
- 2 ABSPP (asset-backed securities purchase programme)
- 3 CBPP3 (covered bond purchase programme)

Background: ECB Response to the crisis

Objective

- Maintain/restore the monetary policy transmission mechanism

Instruments

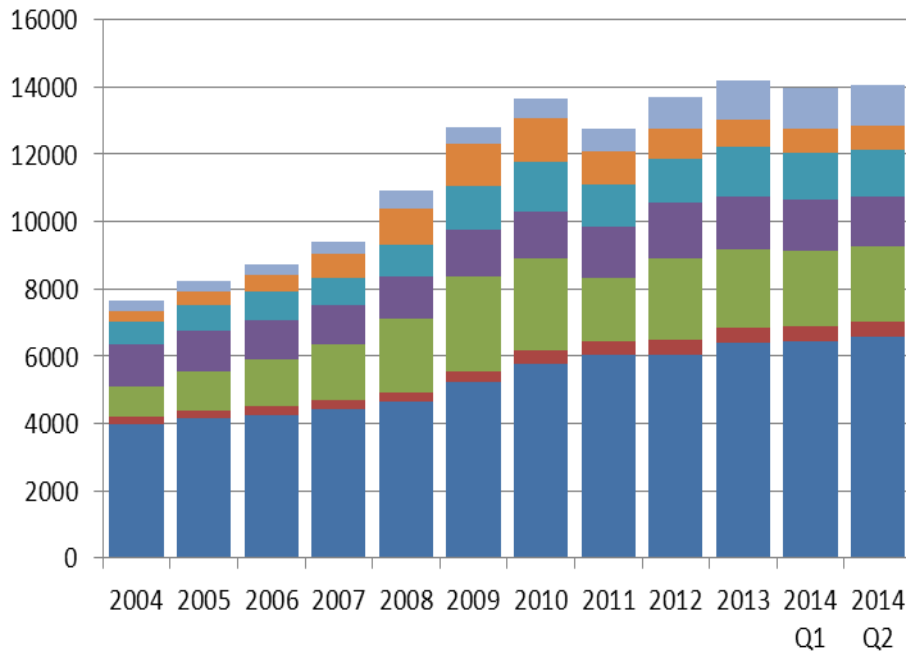
- Fixed-rate, full-allotment liquidity provision
 - Expansion of list of assets eligible as collateral
 - Longer-term liquidity provision
 - Liquidity provision in foreign currencies
 - Changes in the required reserve ratio
 - Targeted longer-term liquidity provision
 - ***Outright purchases of specific debt securities***
- ***The ECB's operational framework is very flexible***

Background: why ABSPP and CBPP3?

- TLTROs, ABSPP and CBPP3 are a package
- Together with the targeted longer-term refinancing operations (TLTROs), the purchase programmes will further enhance the transmission of monetary policy.
- The purchase programmes will facilitate credit provision to the euro area economy, generate positive spill-overs to other markets and, as a result, ease the ECB's monetary policy stance.
- Measures will have a sizeable impact on the Eurosystem's balance sheet which is expected to move towards the dimensions it had at the beginning of 2012 and will contribute to a return of inflation rates to levels closer to 2%.

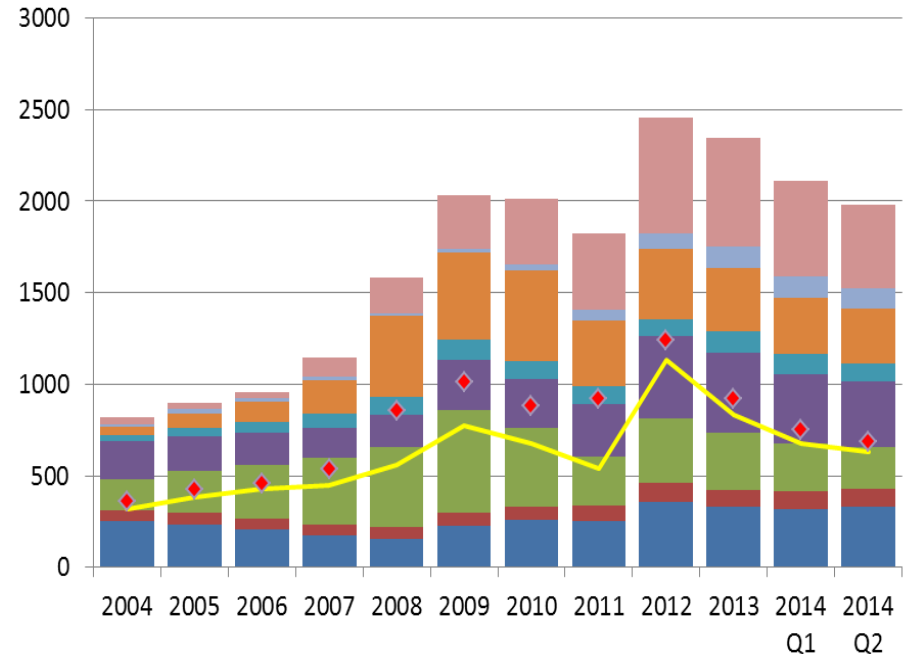
Volume of eligible assets (refinancing operations)

Eligible marketable assets (EUR mln)



Notes: Nominal amounts, averages of end of month data
Source: ECB

Pledged collateral (EUR mln)



Notes: Collateral value after valuation and haircuts, averages of end of month data
Source: ECB

- | | | | |
|---------------------------------|----------------------------------|---------------------------|-------------------------|
| ■ Central government securities | ■ Regional government securities | ■ Uncovered bank bonds | ■ covered bank bonds |
| ■ Corporate bonds | ■ Asset-backed securities | ■ Other marketable assets | ■ Non-marketable assets |
| — Average outstanding credit | ◆ Peak outstanding credit | | |

ABSPP

ECB monetary policy statements related to ABS

5 June 2014 ECB press conference

“...the Eurosystem will consider purchasing simple and transparent ABS ... taking into account the desirable changes in the regulatory environment, and will work with other relevant institutions to that effect.”

7 August ECB press conference

“ ... we have intensified preparatory work related to outright purchases in the ABS market to enhance the functioning of the monetary policy transmission mechanism. ... ”

5 September ECB press conference

“The Eurosystem will purchase a broad portfolio of simple and transparent asset-backed securities (ABSs) with underlying assets consisting of claims against the euro area non-financial private sector under an ABS purchase programme (ABSPP). This reflects the role of the ABS market in facilitating new credit flows to the economy (...).”

2 October ECB press conference

“ECB announces operational details of asset-backed securities and covered bond purchase programmes [...] Programmes will last at least two years [...] Eurosystem collateral framework is guiding principle for eligibility of assets for purchase...”

ABSPP overview

- ABS Purchase Programme to cover senior and guaranteed mezzanine tranches in primary and secondary markets
- Purchases to extend over a minimum period of 2 years
- No intended purchase volume to be published
- Minimum credit quality threshold
 - Minimum second-best rating of CQS3
 - Derogation for any ABS with underlying claims against non-financial private sector entities resident in Greece and Cyprus, which could not achieve a second-best credit assessment of CQS3 – additional criteria apply
- 70% purchase limit per ISIN (30% in the case of Greece and Cyprus)

ABSPP practical implementation

- ECB contracts four executing asset managers for the ABSPP
- Buying decisions remain sole responsibility of the Eurosystem
- Purchases expected to start in the course of November, after the legal act is published
- Executing asset managers conduct the eligible ABS purchase transactions on explicit instructions from, and on behalf of, the Eurosystem, which will undertake price checks and due diligence prior to approving the transactions.
- Provisions are in place to mitigate conflicts of interest, such as the separation of teams working for the ECB and those engaged in any other activities. This will be subject to checks by external auditors.

ABSPP eligibility criteria - senior tranches

- Compliance with the Eurosystem collateral eligibility criteria for ABS
- Denomination of the ABS tranche: Euro
- Issuer residence: Euro area
- Additional criteria for underlying assets on denomination and geographical scope
- Derogation from general eligibility criteria for jurisdictions where CQS3 is not achievable (Greece and Cyprus)
- *(The eligibility criteria for guaranteed mezzanine tranches of ABSs will be communicated at a later stage)*

CBPP3

CBPP3 overview

- Programme launched in October 2014
- The purchases of euro-denominated covered bonds issued in the euro area will be distributed across the euro area
- Purchases to be carried out progressively by the ECB and the Eurosystem NCBs by means of direct purchases
- CBPP3 purchases will be conducted in both the primary and secondary markets
- Outstanding amount of the CBPP3 programme 7.4 bn euro (as of 7 November)

CBPP3 eligibility criteria

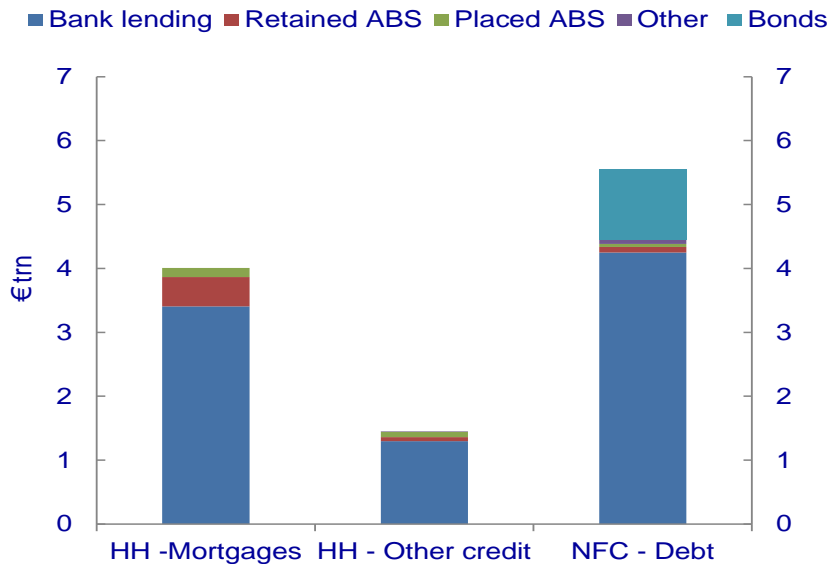
- CBPP3 qualifying covered bonds must
 - be eligible for monetary policy operations
 - fulfil the conditions for their acceptance as own-used collateral
- Eligible covered bonds must be issued by euro area credit institutions (in the case of multi-cédulas, by special purpose vehicles incorporated in the euro area)
- Other eligibility criteria
 - denominated in euro
 - held and settled in the euro area
 - underlying assets with exposure to private and/or public entities
 - minimum first-best credit assessment of credit quality step 3 (CQS3)
- Derogation from general eligibility criteria for jurisdictions where CQS3 is not achievable (Greece, Cyprus)

CBPP3 eligibility criteria (continued)

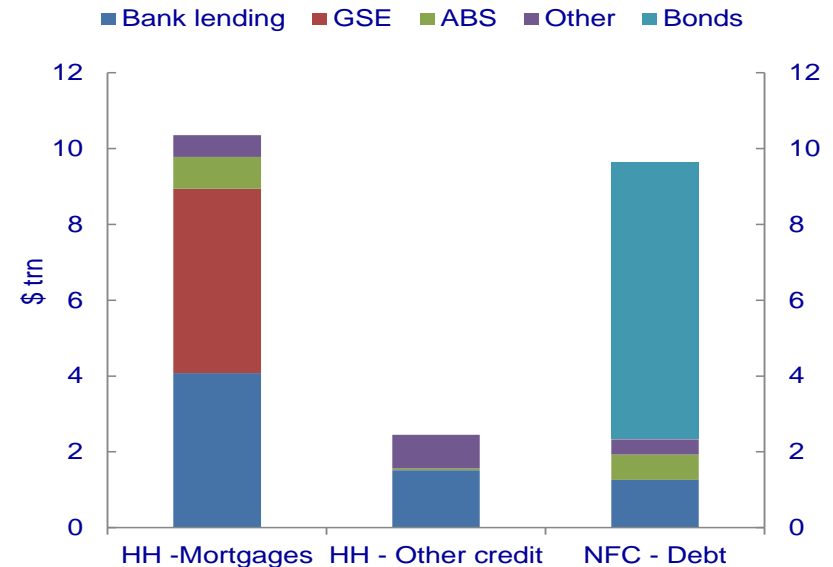
- Covered bonds issued by entities suspended from Eurosystem credit operations are excluded for the duration of the suspension.
- CBPP3 eligible counterparties: Eurosystem's monetary policy counterparties and Eurosystem euro-denominated investment portfolio counterparties.
- The Eurosystem will apply an issue share limit of 70% per ISIN.
 - in the case of covered bonds issued by issuers in Greece and Cyprus and not fulfilling the CQS3 rating requirement an issue share limit of 30% per ISIN will be applied.
- The Eurosystem will conduct appropriate credit risk and due diligence procedures on the purchasable universe on an ongoing basis.
- Fully retained issues are eligible for CBPP3

Well functioning securities market can promote more balanced funding structure in Europe

EA (EUR bn)

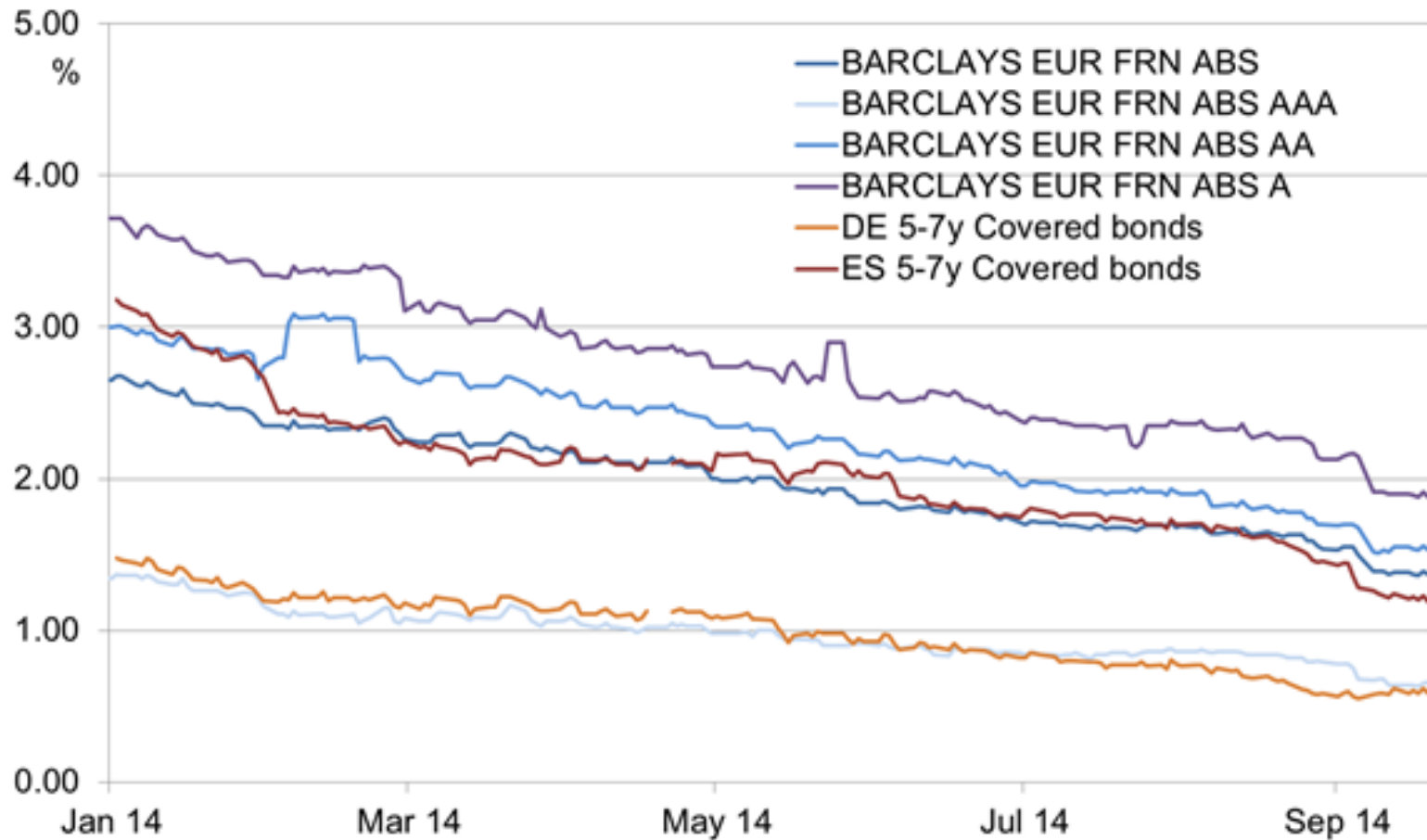


US (\$ bn)



Sources: ECB, FED, AFME, Barclays, ECB calculations. Data refers to 2014Q1.

Yield declines in certain ABS and covered bonds



Source: Moody's



EUROPEAN CENTRAL BANK

EUROSYSTEM

Thank you for your attention.