ECB Liquidity Support Measures – due to COVID-19 and beyond

Emergency measures as announced 18 March 2020
and previously existing programmes

March 2020

pwc

Agenda

Notice: **Targeted long-term Refinancing Operations (TLTROs)**
are not described in the remainder of this deck, given their primary nature as funding of new credit business

1

Pandemic Emergency Purchase Programme (PEPP)

€750 billion Pandemic Emergency Purchase Programme

“PEPP” as announced 18 March 2020

Key messages of Christine Lagarde, President of the ECB, 19 March 2020

- ECB’s Governing Council announced a new Pandemic Emergency Purchase Programme with an envelope of €750 billion until the end of 2020, in addition to €120 billion decided on 12 March.
- Together it amounts to 7.3% of euro area GDP. The programme is available to all jurisdictions and until the coronavirus crisis phase is over. The new instrument has three main advantages.
  - First, it fits the type of shock we are facing: exogenous, detached from economic fundamentals and affecting all countries in the euro area.
  - Second, it allows us to intervene in the entire yield curve, preventing financial fragmentation and distortions in credit pricing.
  - Third, it is tailored to manage the staggered progression of the virus and the uncertainty about when and where the fallout will be worst.
- ECB is fully prepared to increase the size of asset purchase programmes and adjust their composition, as much as necessary and needed.
- ECB also decided to purchase commercial papers of sufficient credit quality and to expand eligible collateral in refinancing operations.
- ECB is making available up to €3 trillion in liquidity through refinancing operations, at the lowest interest rate ever offered, -0.75%. Offering funds below deposit facility rate allows to amplify the stimulus from negative rates and channel it directly to those who can benefit most.
- European banking supervisors have also freed up an estimated €120 billion of extra bank capital, which can support considerable lending capacity by euro area banks.

Decision of 18 March 2020 – main components

Impacting PEPP, CSPP and ACC

1 Pandemic Emergency Purchase Programme (PEPP)

New temporary asset purchase programme

- Private and public sector securities
- Overall envelope of €750 billion
- Purchases until the end of 2020
- Includes all the asset categories eligible under the existing **Asset Purchase Programme (APP)** – see below for details
- For the purchases of **public sector securities**, the benchmark allocation across jurisdictions will continue to be the capital key of the national central banks.
- Purchases under the new PEPP will be conducted in a flexible manner
- A waiver of the eligibility requirements for securities issued by the **Greek** government will be granted for purchases under PEPP
- Termination of PEPP once the coronavirus Covid-19 crisis phase is over but in any case **not before the end of 2020**

2 Corporate Sector Purchase Programme (CSPP)

Expansion of range of eligible assets to **non-financial commercial paper**, all commercial papers of sufficient credit quality eligible

3 Additional Credit Claims (ACC)

Expand the scope of Additional Credit Claims (ACC) to include **claims related to the financing of the corporate sector**

PEPP – FAQ

Start, Delivery, Eligibility, Distribution, Risk sharing

1 **PEPP Criteria**

Q1: When did you start purchases under the PEPP?
The Eurosystem started conducting purchases under the pandemic emergency purchase programme (PEPP) on 26 March 2020. In addition, the Eurosystem continues to conduct the asset purchase programme (APP) purchases, including the temporary envelope of net asset purchases of €120 billion, as communicated after the 12 March 2020 Governing Council meeting.

Q2: How will you distribute the purchase volumes across the APP and the PEPP?
The APP, including the temporary envelope of additional net asset purchases of €120 billion as decided by the Governing Council on 12 March, will be implemented in full according to the established principles, with an additional flexibility for the temporary envelope. The additional temporary envelope of €750 billion under the PEPP is separate from and in addition to the net purchases under the APP. The PEPP allocation of public sector securities across jurisdictions is guided by the capital key of the national central banks. However, the PEPP is designed in a flexible manner in order to deal with the specific situation caused by the COVID- 19 outbreak in a targeted manner and will allow for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.

Q3: Are the assets eligible for purchase under the PEPP the same as under the APP?
The PEPP includes all the asset categories eligible under the existing asset purchase programme (APP). In addition, the PEPP includes a waiver of the eligibility requirements for securities issued by the Greek Government. Moreover, non-financial commercial papers are now eligible for purchases both under the PEPP and the corporate sector purchase programme (CSPP).

Q4: Will you conduct catch–up purchases in bonds issued by the Greek Government?
Bonds issued by the Greek Government are only eligible for the PEPP, not for the APP. Therefore, there will be no catch-up purchases.

Q5: What is the distribution between the share of public purchases and private purchases in the PEPP?
The Eurosystem will purchase eligible securities under the PEPP in a flexible and appropriate manner to foster smooth market functioning and counter risks to the monetary policy transmission mechanism. Therefore, there is no pre-defined distribution across asset classes. Instead, purchases will be carried out flexibly to achieve monetary policy objectives.

Q6: Will the PEPP be risk shared?
The same risk-sharing principles apply for the PEPP as for the APP. Thus, the private sector purchases will be fully risk shared, while for the public sector purchases the ECB's share of purchases as well as purchases of securities of European institutions will be subject to risk sharing. This implies that 20% of public sector asset purchases under PEPP will be subject to risk sharing. The rest of the NCBs' additional public sector purchases will not be subject to risk sharing.

Q7: Are the rating requirements for the PEPP the same as for the APP?
Yes. The only exception is the eligibility of Greek Government bonds under the respective waiver.

PEPP – FAQ

Eligible maturities, termination, security lending

1 **PEPP Criteria**

Q8: What bond maturities will you buy in the PEPP?
The residual maturity of public sector securities purchased under the PEPP ranges from 70 days up to 30 years and 364 days. For private securities eligible under the CSPP, the maturity range is from 28 days up to 30 years and 364 days. For ABSPP and CBPP3-eligible securities, no maturity restrictions apply.

Q9: Do you have target volumes of purchases under the PEPP?
The PEPP has an overall envelope of €750 billion. The Eurosystem is applying a flexible purchase approach and may accelerate or decelerate purchases over time as appropriate to meet its monetary policy objective.

Q10: Can the PEPP be scaled up if needed?
The Governing Council has decided on an overall programme envelope of €750 billion for 2020. If needed to fulfil the ECB's mandate, the Governing Council is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. Within its mandate, the ECB will explore all options and all contingencies to support the economy to counter this extraordinary shock.

Q11: How long will the PEPP last? Can the PEPP be terminated soon if the COVID-19 crisis ends?
Purchases will be conducted until the end of 2020. The Governing Council will terminate net asset purchases under the PEPP once it judges that the COVID-19 crisis phase is over, but in any case not before the end of the year 2020.

Q12: Are the securities purchased under the PEPP also foreseen for securities lending?
Yes. The same conditions will apply for securities lending transactions under the PEPP as under the APP.

Q13: Will you publish data for the PEPP?
Yes. The aggregate book value of securities held under the PEPP will be published on a weekly basis. PEPP monthly net purchases and cumulative net purchases will be published on a monthly basis.

Q14: I am a company and I want to issue bonds. How can I make them eligible for the PEPP?
Whenever new corporate bonds are issued in a country, the national central bank of that country will check whether they fulfil the minimum requirements to be eligible as collateral in refinancing operations. When this is the case and additional CSPP criteria are fulfilled, the bonds could become purchasable (although this is not automatic).

Q15: Will "green" criteria be included in the PEPP?
The eligibility criteria for the PEPP will be the same as under the programmes that constitute the APP, namely the public sector purchase programme (PSPP), the corporate sector purchase programme (CSPP), the covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP).

2

Other Current Asset Purchase Programmes (together: APPs)

ECB's Asset Purchase Programmes (APPs)

Overview over the programmes in place since 2015

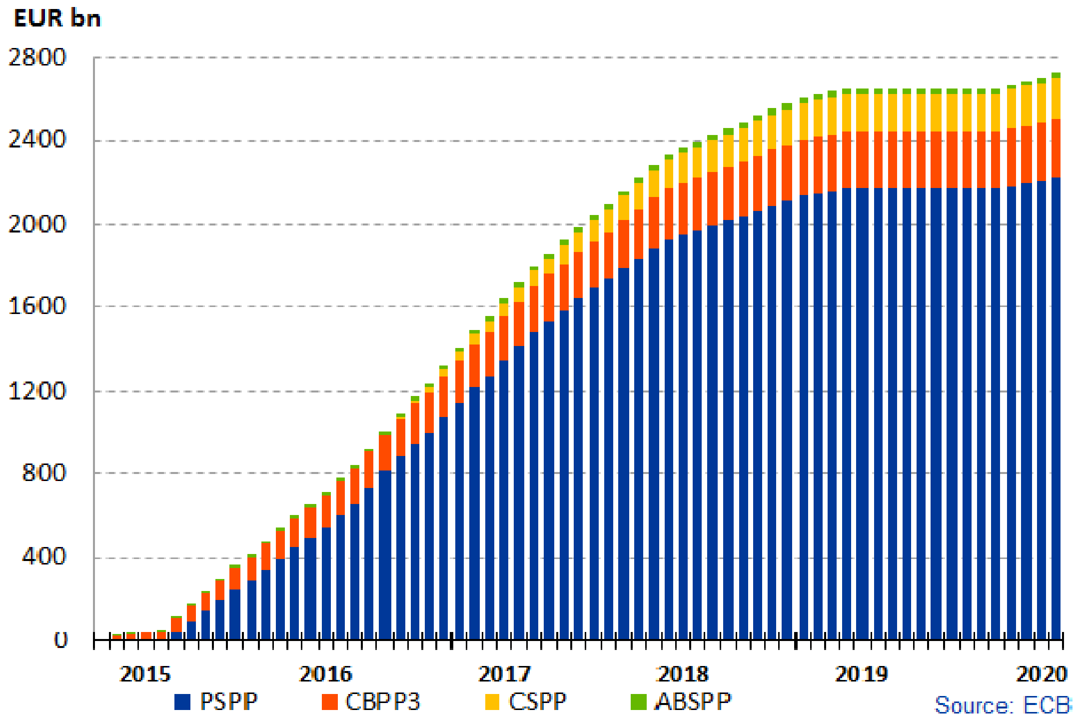
Components and net purchases so far

ECB's APP is part of a package of non-standard monetary policy measures that also includes **targeted longer-term refinancing operations (TLTROs)**, and was initiated in 2014 to support the monetary policy transmission mechanism aiming at ensuring price stability

It consists of the:

- **Corporate Sector Purchase Programme** (CSPP, €195 bn)
- **Asset-backed Securities Purchase Programme** (ABSPP, €28 bn)
- **3rd Covered Bond Purchase Programme** (CBPP3, €271 bn)
- **Public Sector Purchase Programme** (PSPP, €2,129 bn)

The stock of Eurosystem APP stood at €2,732 bn – all figures as of end of February 2020



3

Corporate Sector Purchase Programme (CSPP)

CSPP - Corporate Sector Purchase Programme

Overview

Corporate Sector Purchase Programme

- Aims to further strengthen the pass-through of the Eurosystem's asset purchases to the financing conditions of the real economy
- Purchases started in June 2016. The CSPP is carried out by six national central banks on behalf of the Eurosystem, coordinated by ECB
- In combination with other non-standard measures, the programme will provide further monetary policy accommodation and help inflation rates return to levels below, but close to, 2% in the medium term
- Was added to the ECB's Asset Purchase Programme (APP) in March 2016
- The Eurosystem's Collateral Framework is the basis for determining eligibility of corporate sector securities to be purchased under CSPP The following technical parameters apply:
  - **Outright purchases of**
  - **Investment-grade euro-denominated bonds**
  - **Issued by non-bank corporations**
  - **Established in the euro area**
  - Carried out by **six Eurosystem national central banks** (NCBs): Belgium, Germany, Spain, France, Italy and Finland. Each NCB will be responsible for purchases from issuers in a particular part of the euro area. The ECB will coordinate the purchases.

CSPP – Technical features

Markets & Eligibility criteria

CSPP technical features

- Purchases in the **primary** and **secondary markets**, but no primary market purchases of debt instruments issued by public undertakings
- Debt instruments will be **eligible for purchase**, provided they fulfil all the following criteria:
  – Eligibility as collateral for Eurosystem credit operations, based on the the Eurosystem monetary policy framework (ECB/2014/60)
  – Denomination in Euro
  – Minimum first-best credit assessment at least **credit quality step 3** (rating of **BBB-** or equivalent) from external credit assessment institution
  – Minimum remaining **maturity** of six months and a maximum remaining maturity of 30 years at the time of purchase
  – Issuer is a **corporation** established in the **euro area**, defined as the location of incorporation of the issuer. Issuers whose ultimate parent is not based in the euro area are also eligible for purchase under the CSPP, provided they fulfil all the other eligibility criteria
  – The issuer of the debt instrument:
    - Is **not a credit institution**
    - Does **not** have any parent undertaking (Article 4(15) of the CRR) which is a credit institution (Article 2 (14) of Guideline ECB/2014/60)
    - Is **not an asset management vehicle** (as defined in BRRD/SRMR) or a fund established to support financial sector restructuring and/or resolution

CSSP

Counterparties, issue share limit, issuer benchmark

CSPP technical features

- Purchases under the CSPP will be conducted with counterparties that are eligible for the Eurosystem's monetary policy operations or counterparties that are used by the Eurosystem for the investment of its euro-denominated portfolios
- The Eurosystem will apply an **issue share limit of 70%** per international securities identification number (ISIN) on the basis of the outstanding amount:
  - However, in specific cases a lower issue share limit will apply, e.g. for securities issued by public undertakings, which will be dealt with in a manner consistent with their treatment under the PSPP.

- A benchmark will be defined at issuer group level:
  - The benchmark will be neutral in the sense that it will reflect proportionally all outstanding issues qualifying for the benchmark.
  - This implies that market capitalisation provides a weighting for each jurisdiction of issuance within the benchmark. Issuer group limits will be based on the benchmark.
- Eurosystem will conduct appropriate **credit risk and due diligence procedures** on the purchasable universe on an ongoing basis
- Volume of CSPP holdings will be published on a weekly and monthly basis, and a breakdown of primary and secondary market purchases
- The CSPP holdings will be made available for securities lending by the relevant NCBs.

CSSP – FAQ

Eligibility Criteria (1/3)

1 **Eligibility Criteria**

Q1.1 What are the minimum and maximum maturities of corporate bonds eligible for purchase under the CSPP?
In order to qualify for purchase under the CSPP, debt instruments must have a minimum remaining maturity of six months and a maximum remaining maturity of less than 31 years (i.e. purchases of securities with a remaining maturity of 30 years and 364 days are possible) at the time they are bought. The upper limit is in line with that applied for the public sector purchase programme (PSPP). The lower limit ensures that bonds issued by small and medium-sized corporations are also part of the universe of eligible debt instruments, while curbing the magnitude of redemptions during the lifetime of the programme.

Q1.2 What is the minimum issuance volume of corporate bonds eligible for purchase?
There is no minimum issuance volume for debt instruments eligible for purchase under the CSPP. This ensures that debt instruments with small issuance volumes (often ones issued by small firms) can also be purchased.

Q1.3 Can the Eurosystem buy bonds with negative yields? Is there any minimum yield for the bond purchases?
Purchases of eligible debt instruments with a negative yield to maturity are permissible. Purchases below the deposit facility rate are also permissible in all APP programmes to the extent necessary. The Governing Council decided in January 2017 that purchases of assets with yields below the deposit facility rate could take place under the public sector purchase programme (PSPP) to the extent necessary. On 12 September 2019 the Governing Council decided to extend this possibility to the private sector parts of the APP, namely the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP) and the corporate sector purchase programme (CSPP).

Q1.4 How do you treat a corporate bond if it has two or more ratings? Which rating applies?
In accordance with the practice followed under its collateral framework, the Eurosystem considers only credit assessments provided for the issue, issuer or guarantor by credit rating agencies (i.e. external credit assessment institutions (ECAIs)) which are eligible under the Eurosystem credit assessment framework (ECAF). The use of these ratings is outlined in Articles 83 and 84 of Guideline ECB/2014/60. Article 84 specifies that an issue rating has priority over issuer or guarantor ratings. In general, the first-best rating must have a minimum credit assessment of credit quality step 3 (currently equivalent to an ECAI rating of BBB-/Baa3/BBBL) under the ECAF. Guarantor ratings are considered only in cases where the guarantee complies with the requirements set out in Part Four of Guideline ECB/2014/60.

Q1.5 Will the Eurosystem sell its holdings of bonds if they lose eligibility?
The Eurosystem may choose to, but is not required to sell its holdings in the event of a loss of eligibility, e.g. in case of a downgrade below the credit quality rating requirement.

Q1.6 In what way, if any, are car manufacturing companies eligible for CSPP purchases, given that many of them have "internal banks"?
As long as no *parent* of the issuer of the debt instrument is a bank, the issuer will fulfil the non-bank criterion. If the issuer has a subsidiary that is a bank, the issuer will *not* be excluded under this criterion. Consequently, the Eurosystem can buy such an issuer's corporate bonds if all other eligibility criteria are met.

CSSP – FAQ
Eligibility Criteria (2/3)

1 **Eligibility Criteria**

Q1.7 The press release on the CSPP refers to "bonds issued by non-bank corporations". What exactly does this mean? Are bonds issued by insurers eligible for purchase?
For a debt instrument to be eligible for purchase under the CSPP, the issuer should not be a credit institution or have any parent undertaking (as defined in Article 4(15) of the Capital Requirements Regulation) which is a credit institution (as defined in Article 2(14) of Guideline ECB/2014/60). Insurers that fulfil these criteria are eligible issuers.

Q1.8 The CSPP press release refers to "bonds issued by non-bank corporations established in the euro area". What criteria does the European Central Bank use to decide whether an issuer is established in the euro area? Can bonds issued by non-euro area companies that have issued debt in the euro area also be purchased?
Bonds issued by issuers incorporated in the euro area are eligible for CSPP purchases. In practical terms, this means that issuers must be euro area residents, as in the list of marketable assets eligible as collateral for Eurosystem liquidity-providing operations. The location of incorporation of the issuer's ultimate parent is not taken into consideration in this eligibility criterion. Thus, corporate debt instruments issued by corporations incorporated in the euro area but whose ultimate parent is not established in the euro area are eligible for purchase under the CSPP, provided they fulfil all other eligibility criteria.

Q1.9 Can you provide some more details on what the Eurosystem considers to be a "bank" for the purposes of the CSPP, and hence an ineligible issuer?
For a debt instrument to be eligible for purchase under the CSPP, the issuer should not be a credit institution or have any parent undertaking (as defined in Article 4(1)(15) of the Capital Requirements Regulation which is a credit institution (as defined in Article 2(15) of Guideline ECB/2014/60). In addition, the issuer of the debt instruments:

- may not have a parent company which is subject to banking supervision outside the euro area;
- may not be a supervised entity as defined in Article 2(2) of Regulation (EU) No 468/2014 of the European Central Bank (ECB/2014/17) or a member of a supervised group as defined in Article 2(21) of Regulation (EU) No 468/2014 (ECB/2014/17), in each case as contained in the list published by the ECB on its website in accordance with Article 49(1) of Regulation (EU) No 468/2014 (ECB/2014/17), and may not be a subsidiary, as defined in Article 4(1)(16) of Regulation (EU) No 575/2013, of any of those supervised entities or supervised groups;
- may not be an investment firm within the meaning of Article 4(1)(1) of Directive 2014/65/EU of the European Parliament and of the Council.
- In practical terms, this means that bonds issued by an entity which is supervised under the Single Supervisory Mechanism, as well as its subsidiaries, are not eligible for purchase under the CSPP. At the same time, in order to ensure a level playing field between euro area and foreign issuers, issuers with a parent company that is subject to banking supervision outside the euro area are also excluded.
- Point (iii) means that entities that are comparable to banks in terms of their activities, e.g. the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis according to the Markets in Financial Instruments Directive (MiFID II), but which are classified as MiFID investment firms from a legal perspective, are not eligible.

CSSP – FAQ
Eligibility Criteria (3/3)

1 **Eligibility Criteria**

Q1.10 In order to be eligible for purchase under the CSPP, what is the required legal form for otherwise eligible international debt securities?
Admissible forms of international debt securities are specified in Article 66 of Guideline ECB/2014/60 and depend on whether the securities are issued in global bearer or global registered form. International debt securities issued in global registered form after 30 September 2010 must be issued under the new safekeeping structure for international debt instruments. International debt securities issued in global bearer form after 31 December 2006 must be issued in the form of new global notes and are to be deposited with a common safekeeper which is an ICSD or a CSD that operates an eligible SSS. International debt instruments in individual note form issued after 30 September 2010 are not eligible.

Q1.11 With the start of the CSPP, have certain PSPP-eligible agency issuers become eligible for the CSPP instead?
Yes. Following the Eurosystem's systematic review of all public undertakings which comply with the PSPP and the CSPP eligibility criteria, it has allocated public undertakings to one or the other of the two programmes. On the basis of this review, several agency issuers previously eligible for the PSPP became instead eligible for CSPP purchases. These issuers are: ENEL S.p.A., SNAM S.p.A., Terna S.p.A. – Rete Elettrica Nazionale, Ferrovie dello Stato Italiane S.p.A. and ENMC – Entidade Nacional para o Mercado de Combustíveis E.P.E. Implementation aspects of the PSPP

Q1.12 What exactly do you define as a "public undertaking"?
The term "public undertaking" is understood in the sense of Article 8 of Council Regulation (EC) No 3603/93 of 13 December 1993. It defines "public undertaking" as any undertaking over which the state or other regional or local authorities may directly or indirectly exercise a dominant influence by virtue of their ownership of it, their financial participation therein or the rules which govern it. A dominant influence on the part of the public authorities is presumed when these authorities, directly or indirectly in relation to an undertaking: (a) hold the major part of the undertaking's subscribed capital; (b) control the majority of the votes attaching to shares issued by the undertaking; or (c) can appoint more than half of the members of the undertaking's administrative, managerial or supervisory body. The Eurosystem will not publish a specific list of the CSPP-eligible issuers classified as "public undertakings".

Q1.13 Which entities are considered to be an asset management vehicle or a national asset management and divestment fund established to support financial sector restructuring and/or resolution?
According to the eligibility requirements of the CSPP, the issuer of a debt instrument cannot be an asset management vehicle (as defined in the Bank Recovery and Resolution Directive and Single Resolution Mechanism Regulation) or a national asset management and divestment fund. The latter category presently includes the following entities: Fondo de Reestructuración Ordenada Bancaria (FROB), Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB), National Asset Management Agency (NAMA), Parvalorem, Parparticipadas, Parups, Propertize, Družba za upravljanje terjatev bank (DUTB), HSH Portfoliomanagement AöR and HSH Finanzfonds AöR.

CSSP – FAQ

Conduct of purchases, Corporate Bond holdings, Target sectors

2 **Implementation of purchases and holdings**

Q2.1 How does the Eurosystem conduct CSPP purchases?
The CSPP contributes to the APP's total monthly purchase volume. Similar to the other asset purchase programmes (PSPP, CBPP3 and ABSPP), the purchase targets are not published ex ante. This allows the monthly purchase volumes to remain flexible to take into account prevailing market liquidity and activity at any time. However, data on actual holdings are published ex post on a weekly basis.

Q2.2 How can I find out more about the Eurosystem's corporate bond holdings?
Details on CSPP-related holdings are published on a weekly, monthly and semi-annual basis. They include aggregate data, such as total holdings, a breakdown of primary and secondary market purchases, and a breakdown by rating, country and sector. This information is made available in the context of the APP so that observers can gain an insight into the Eurosystem's overall purchases. In addition, the ECB publishes a detailed list of CSPP securities that are held by the Eurosystem, including the national central bank (NCB) that bought the security, the security's maturity date and its coupon rate. CSPP holdings.

Q2.3 Does the Eurosystem target or exclude specific industry sectors?
The eligibility of assets for purchases under the CSPP is guided by our monetary policy objective, taking into account appropriate financial risk management considerations. To ensure the effectiveness of monetary policy, while keeping a level playing field for all market participants and avoiding undue market distortions, the range of bonds eligible for the CSPP is deliberately broad and does not discriminate on the basis of the economic activity of the issuers.

As a consequence, there is no positive or negative discrimination on the basis of environmental or social criteria. For example, corporate green bonds that meet the eligibility criteria may be purchased under the CSPP. The Eurosystem holds several green bonds under the CSPP, resulting in a positive contribution to the funding of environmental projects. More information on green bond purchases under the CSPP can be found in the Economic Bulletin, Issue 7/2018.

Furthermore, the ECB shares the view that an awareness of environmental issues, together with ethical and socially responsible behaviour, are important for society and actively supports several initiatives in this context beyond the purchase of green bonds under the CSPP.

CSPP – FAQ

National Central Banks as conduct hubs

2 **Implementation of purchases and holdings**

Q2.4 Who conducts the purchases?
The CSPP purchases are carried out by six NCBs acting on behalf of the Eurosystem. The ECB coordinates the purchases. The NCBs conducting the purchases are the Nationale Bank van België/Banque Nationale de Belgique, the Deutsche Bundesbank, the Banco de España, the Banca d'Italia, the Banque de France and Suomen Pankki – Finlands Bank.

Market segments for bond purchases under the CSPP are allocated to the purchasing NCBs according to the geographical location of the issuer as follows:

NCB	Market Segment
The Nationale Bank van België/Banque Nationale de Belgique (Belgium)	BE, CY, GR, LU, MT, PT, NL[4], SI and SK
The Deutsche Bundesbank (Germany)	DE and NL[1]
The Banco de España (Spain)	ES and NL[2]
The Suomen Pankki/Finlands Bank (Finland)	AT, EE, FI, IE, LT, LV
The Banque de France (France)	FR
The Banca d'Italia (Italy)	IT and NL[3]

[1] Includes bonds of issuers with NL as residence country and DE as country of risk
[2] Includes bonds of issuers with NL as residence country and ES as country of risk
[3] Includes bonds of issuers with NL as residence country and IT as country of risk
[4] Includes bonds of issuers with NL as residence country and a country of risk other than DE, ES or IT

Note: The International Organization for Standardization's "country of risk" concept, used here, applies a methodology based on four factors: management location, country of primary listing, country of revenue and reporting currency of the issuer.

CSPP – FAQ

Client communication, primary market, ECB Participation in Private placements

2 **Implementation of purchases and holdings**

Q2.5 What information can counterparties reveal to their clients with regard to CSPP purchases?
For the CSPP, counterparties can communicate that the Eurosystem has been buying in the corporate space, the maturity bucket and the sector (e.g. utilities), but not the exact amounts, the issuers of the bonds purchased, the securities involved or the Eurosystem member involved.

Q2.6 Is the Eurosystem able to buy in the primary market?
Yes, purchases in both primary and secondary markets take place under the CSPP. However, for debt instruments issued by public undertakings, no primary market purchases take place as such purchases are forbidden owing to the prohibition on monetary financing laid down in Article 123 of the TFEU.

Q2.7 Does the Eurosystem apply any measures to mitigate potential negative effects on secondary market liquidity?
When implementing the CSPP, the Eurosystem is mindful of the potential impact of its purchases on market liquidity. When buying in the secondary market, it considers, inter alia, the scarcity of specific debt instruments and general market conditions, i.e. with a certain degree of flexibility to also take into account seasonal differences. Furthermore, the benchmark applied for purchases proportionally reflects all eligible outstanding issues. This also implies that market capitalisation provides a weighting for each of the different jurisdictions of issuance within the benchmark. Finally, CSPP holdings are also available for securities lending by the relevant purchasing NCBs, who publish a list of the individual bonds they hold on a weekly basis without revealing the size of their holdings in each bond. Securities lending under the APP

Q2.8 Can the Eurosystem participate in private placements?
The Eurosystem **can participate in the purchase of CSPP-eligible corporate bonds via private placements**. The same eligibility requirements and limits apply to private placements and publicly placed bonds. The Eurosystem cannot participate in private placements issued by public undertakings. Market participants involved in private placements can contact the relevant NCB, which acts as the contact point for the Eurosystem in such situations.

Q2.9 Will income and losses be shared within the Eurosystem?
In general, income and losses from decentralised monetary policy operations conducted by the Eurosystem are shared. The CSPP is subject to a full income and loss sharing regime.

Q2.10 Will the Eurosystem reinvest/roll over maturing bonds?
In line with the other APP programmes, principal payments on the securities purchased under the CSPP will be reinvested as they mature, for as long as necessary.

CSPP – FAQ

Limits per issue/issuer group, credit risk mitigation

Q3.1 Are there any limits on CSPP holdings per issue or per issuer group?
Analogously to the existing private sector purchase programmes, the Eurosystem applies a maximum issue share limit of 70% per international security identification number (ISIN) on the basis of the outstanding amount. Lower issue share limits apply in specific cases, for example for securities issued by public undertakings, which are dealt with in a manner consistent with their treatment under the PSPP. In relation to public undertakings, the Eurosystem is bound by the monetary financing prohibition in Article 123 of the Treaty on the Functioning of the European Union (TFEU). The Eurosystem applies additional limits per issuer group, following a pre-defined benchmark, to ensure a diversified allocation of purchases across issuers while allowing for sufficient leeway to build up the portfolio.

Q3.2 How is "issuer group" defined?
An issuer group is defined as a group of companies that operate as a single economic entity and constitute a single reporting entity for the purposes of presenting consolidated accounts. The issuer group consists of the parent company and all of its direct and indirect subsidiaries.

Q3.3 What are the risks of the programme and are there any plans to mitigate them? Will the Eurosystem be monitoring the creditworthiness of the companies behind its bond purchases?
As with any diversified portfolio of credit instruments, risks from the deterioration of issuers' credit quality or from issuer defaults cannot be entirely excluded. At the same time, the risks of the programme are contained in particular by (i) setting minimum credit quality criteria at the time of purchase, (ii) ensuring diversification through issuer group limits defined relative to a neutral benchmark, and (iii) by **implementing appropriate due diligence procedures and credit risk mitigation measures on an ongoing basis** (as with the third covered bond purchase programme (CBPP3), for example). The Eurosystem may also apply additional risk management measures as deemed necessary.

Q3.4 What does "market capitalisation" mean in the context of the internal benchmark?
The term "market capitalisation", which is relevant in the context of the internal benchmark, refers to the nominal outstanding amount of eligible bonds issued by the issuer in question as a share of the entire CSPP-eligible universe.

3 **Limits and Risks**

4

Asset-backed Securities Purchase Programme

ABSPP – Asset-backed Securities Purchase Programme

Overview (1/2)

Asset backed securities purchase programme

Main features

- **Senior** and **guaranteed mezzanine tranches** of asset-backed securities (ABSs) are purchased in **primary** and **secondary markets**
- In order to qualify for purchases under the programme, ABS **senior tranches** must:
  - Be **eligible under the collateral framework** for Eurosystem credit operations as it may be modified over time. For further information on the collateral framework: http://www.ecb.europa.eu/mopo/assets/html/index.en.html
  - Be **denominated in euro** and have **issuer residence within the euro area**
  - Be secured by claims against **non-financial private sector entities** resident in the **euro area**
  - Either legacy or newly originated – with a minimum of **95% eurodenominated** and of which a min. share of 95% resident in euro area
  - Have a **second-best credit assessment** of at least **CQS3**, currently equivalent to an ECAI rating of **BBB-/Baa3/BBBl**
  - For ABSs with underlying claims against non-financial private sector entities resident in **Greece or Cyprus** which cannot achieve a second-best credit assessment of CQS3, a derogation based on the fulfilment of the following requirements will be applied for as long as the Eurosystem's minimum credit quality threshold is not applied in the collateral eligibility requirements for marketable debt instruments issued or guaranteed by the Cypriot or Greek governments (see next page)

ABSPP – Asset-backed Securities Purchase Programme

Overview (2/2)

Asset backed securities purchase programme

Main features

- The eligibility criteria for **guaranteed mezzanine tranches** of ABSs will be communicated at a later stage
- The Eurosystem will conduct appropriate **credit risk and due diligence procedures** on the purchasable universe on an ongoing basis
- The Eurosystem will apply an **issue share limit of 70% per ISIN**, except in the case of ABSs with underlying claims against non-financial private sector entities resident in Greece or Cyprus and not fulfilling the CQS3 rating requirement; for those ABSs limit of 30% per ISIN
- For fully retained securities, purchases by the Eurosystem would be possible subject to some participation by other market investors.
- **Greece and Cyprus eligibility criteria**
- Derogation based on fulfilment of following requirements will be applied for as long as the Eurosystem's minimum credit quality threshold is not applied in the collateral eligibility requirements for marketable debt instruments issued/guaranteed by the Cypriot or Greek governments:
  - Compliance with the above criteria except the credit quality threshold
  - Ratings on a second-best basis at the maximum achievable rating in the jurisdiction
  - A minimum current credit enhancement of 25%
  - Availability of investor reports and modelling of the ABSs in standard third party ABS cash-flow modelling tools, as assessed by the ECB
  - All counterparties to the transaction (e.g. account bank and swap provider), except for the servicer, have a first-best rating of at least CQS3 and full back-up servicing provisions are in place

ABSPP – Guiding principles

Nature and intention of guiding principles

Guiding principles of Eurosystem-preferred eligible ABSs – Preliminary explanations

- As part of the pre-purchase process, the Eurosystem conducts intensive due diligence on proposed transactions with a view to safeguarding the Eurosystem's balance sheet
- Based on experience gained, the Eurosystem has developed the following set of **high-level, non-binding,** and **non-exhaustive guiding principles**
- The guiding principles are designed solely to show Eurosystem's preferences to the ABSs that it considers for purchase in ABSPP
- Compliance with Guiding Prinicples will be taken into consideration particularly when assessing and pricing **newly-issued ABSs** for ABSPP
- Guiding principles are not listed in order of importance, the relevance of each principle is weighted in the context of each unique ABS

- At the same time,
  - Guiding principles are not intended as eligibility criteria like those set out in Decision ECB/2014/45 (furthermore, these are guidelines and should not be construed as "pre-issuance advice").
  - Guiding principles are not in any way intended to exclude for consideration for purchase any ABS meeting Decision ECB/2014/45's eligibility criteria.
  - Guiding Principles do not signal a change in the objectives of the ABSPP generally. ABSs may not fulfil one or more of the principles below, and the Eurosystem will continue to consider such ABSs for purchase, subject to their satisfaction of the eligibility criteria set out in Decision ECB/2014/45 and subject to the Eurosystem's credit risk assessment and due diligence in relation to such ABS – and vice versa.

ABSPP – 7 Guiding principles at a glance

Overview

1

The collateral should be a **diversified pool** of **granular** and **performing** assets

2

The underlying exposures are originated according to **sound underwriting criteria**

3

The transaction **structure** is **straightforward** and **robust**

4

The **originator** is in **good financial health** and has ideally demonstrated (or intends to have) a regular presence in the ABS markets. The interests of originators and investors should be clearly-aligned

5

If applicable, **interest rate risks** are **mitigated** and the transaction documentation clearly specifies the mitigation measures for these risks

6

The transaction **documentation** should clearly specify the **processes and responsibilities** necessary to ensure that the default or insolvency of involved parties does not lead to a disruption of the structure

7

The transaction displays a **high degree of transparency**

ABSPP – Guiding Principles – Details

Diversification, granularity and performance

1

The collateral should be a diversified pool of granular and performing assets.

Examples of this principle include:

- At the time of inclusion in the securitisation, a loan should not be in dispute, default, or unlikely to pay. The borrower associated with the loan should not be deemed credit-impaired (as defined in IAS 36).
- Where applicable, only a small share of the loan pool is constituted of second-lien loans whose first lien is not included in the pool.
- The pool should be exhibiting good performance in terms of delinquencies and defaults relative to credit enhancement.
- Where appropriate, the overall pool should show a significant degree of diversification and granularity.
- For SME and Leasing ABSs, at issuance, the majority of a portfolio is not concentrated in a single industry.

ABSPP – Guiding Principles – Details

Sound underwriting Criteria

2

The underlying exposures are originated according to sound underwriting criteria.

Examples of this principle include:

- Any underlying exposures should be originated in the course of the originator's ordinary business and in accordance with sound and prudent credit granting criteria as required under Article 79 of the CRDIV and Article 408 of the CRR.
- Such criteria should include at least an assessment of the borrower's creditworthiness in accordance with paragraphs 1 to 4, 5(a) and 6 of Article 18 of Directive 2014/17/EU or Article 8 of Directive 2008/48/EC, to the extent such standards would, according to their terms, in any case apply to the individual underlying exposures.
- Only a small proportion of the pool contains loans to unemployed borrowers at the closing of the transaction.
- For RMBSs, the percentage of the pool composed of interest-only or otherwise 'bullet' loans does not substantially deviate negatively from the norm for that jurisdiction, unless appropriate safeguards (such as guarantees or other repayment vehicles) exist.
- For RMBSs, the weighted average original loan-to-income ratio and original loan-to-value ratio of the pool does not substantially deviate negatively from the norm for that jurisdiction.

ABSPP – Guiding Principles – Details

Roles, responsibilities, robustness of processes

3

The transaction structure is straightforward and robust.

Examples of this principle include:

- The pool is static – no revolving arrangements or “ramp-up” arrangements unless underlying collateral is short-term (e.g. credit cards). In the latter case, transaction documentation contains clear criteria to prevent a deterioration of pool quality as a result of substitutions or additions.
- Pre-enforcement priority and post-enforcement priority of payments is sequential. For currently-outstanding transactions that do not meet this example, there are clearly defined triggers for any potential changes to the waterfall structure or for the calculation of any amounts due thereunder, if any, ensuring investors can accurately forecast expected changes and model the expected cash flows
- Credit enhancement on the senior class of notes (i.e. tranche) is sufficient to withstand a severe stress scenario
- Performance and rating triggers are clearly disclosed in transaction documentation. Provisions are in place for swift remedy of any breaches
- Ideally clearly-defined mechanisms exist to trap other available funds for the benefit of senior noteholders
- Trustees’ responsibilities are clearly defined, and trustees are obliged to act in the interests of the noteholders
- If there is an option for the issuer or originator to call the transaction prior to maturity, transactions where such call option is structured in line with best market practice and does not negatively affect the riskiness of the transaction are preferred
- Ideally, terms and conditions of notes provide that originator’s note holdings are not taken into account for the purposes of establishing a quorum, a majority for note holder meetings, or for resolutions on matters such as termination and replacement of servicer

ABSPP – Guiding Principles – Details

Quality of the originator, mitigation of interest rate risks

4

The originator is in good financial health and has ideally demonstrated (or intends to have) a regular presence in the ABS markets. The interests of originators and investors should be clearly-aligned.

Examples of this principle include:

- The originator is currently complying with all applicable supervisory requirements
- The originator is not under special administration by the responsible supervisory authority, has passed the applicable regulatory stress tests (or has taken adequate capital measures afterwards), and does not currently need (and is not anticipated to need) government support
- The transaction complies with the CRR risk retention requirements

5

If applicable, interest rate risks are mitigated and the transaction documentation clearly specifies the mitigation measures for these risks.

Examples of this principle include:

- Any hedging arrangements in the transaction are structured in a simple and proportionate manner and the hedging arrangements do not implicitly provide credit support for the transaction as a result of the hedging counterparty paying interest for delinquent or defaulted loans
- Any hedge arrangement is simple and transparent, and can easily be replaced in case of trigger events
- Any hedging arrangements is structured to, and the relevant counterparties comply with Regulation (EU) 648/2012 (‘EMIR’)

ABSPP – Guiding Principles – Details

Clear documentation avoiding disruption in default of involved parties

6

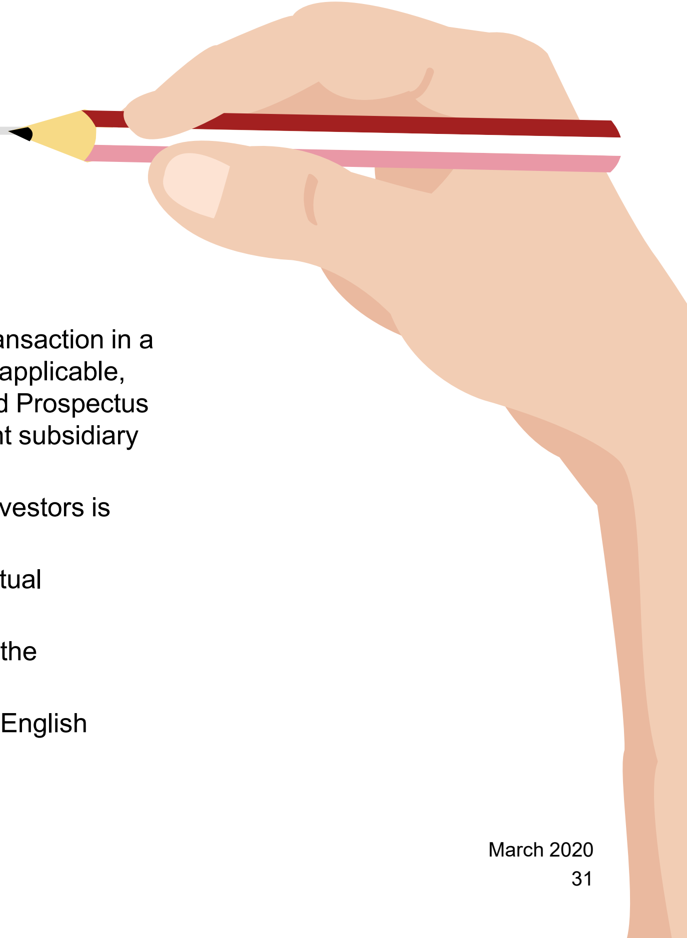
The transaction documentation should clearly specify the processes and responsibilities necessary to ensure that

- Default or insolvency of current servicer does not lead to disruption of servicing of underlying assets. This does not necessarily imply that a back-up servicer or a back-up servicer facilitator must exist
- Upon default and specified events, replacement of hedging counterparty is provided for all hedging arrangements entered into for the benefit of the securitisation
- Upon default and specified events, replacement of liquidity facility provider or account bank is provided for in any liquidity facilities or account bank agreements entered into for the benefit of the securitisation, with triggers set at appropriate levels to protect note holders
- Further, each ABS is assessed regarding its de-linkage from originator or other transaction parties, beyond true sale of underlying pool of assets (e.g. if same transaction party simultaneously performs roles of originator, servicer, swap counterparty and/or accounts bank).
  In this regard, a high degree of de-linkage is desirable to counterparty risk to ensure that weaker transaction parties do not impact negatively the future performance of the ABS.

ABSPP – Guiding Principles – Details

Data, reporting, definitions, structure are clearly documented and in English

7



The transaction displays a high degree of transparency.

Examples of this principle include:

- Loan-level data score is currently A1; there is no need to apply ‘comply or explain’ tolerance thresholds. In addition, for SME and Leasing ABSs, preferably several specific optional fields are completed, i.e., AS17 (Geographic Region), AS30 (Internal 1-year probability of default of the obligor), AS31 (Last internal obligor rating review), AS38 (Bank internal loss given default estimate-downturn), AS61 (Weighted average life), AS100 (Turnover of obligor), AS110 (Number of employees), and CS4 (Collateral value).
- Ideally loan-level data and investor report pool cut-off dates are identical, and loan-level data and investor report data can be reconciled
- Definitions of events relevant for assessing the performance of the transaction are provided in transaction documentation (and in investor reports).
- At least one liability cash-flow model is made available for the transaction in a manner that does not raise concerns over conflicts of interest. If applicable, requirements of Prospectus Directive (Directive 2003/71/EC) and Prospectus Regulation (Commission Regulation (EC) 809/0224) and relevant subsidiary legislation are met, each as amended.
- Transaction structure and relevant documentation available to investors is presented in sufficiently clear and not misleading manner
- In the event that rating triggers have been breached, the contractual consequences of such a breach are clearly documented
- All underlying transaction documentation is available at the time the transaction is marketed, where legally feasible
- Transaction documentation and investor reports are available in English

5

Covered Bond Purchase Programme 3 (CBPP3)

CBPP3 – Covered Bond Purchase Programme No. 3

Overview (1/2)

Covered Bond Purchase Programme 3

Main features

- The purchases of **euro-denominated covered bonds** issued in the euro area will be distributed across the euro area and will be carried out progressively by the ECB and the Eurosystem NCBs by means of direct purchases
- The purchases will be conducted in the **primary** and **secondary markets**
- In order to **qualify** for purchase under the programme, covered bonds must:
  - Be **eligible** for monetary policy operations as defined in Guideline ECB/2011/14 as amended and, in addition, fulfil the conditions for their acceptance as ownused collateral as laid out in Section 6.2.3.2 (fifth paragraph, lit. (b)) of the same Guideline
  - Be issued by **euro area credit institutions**; or, in the case of multi-cédulas, by special purpose vehicles incorporated in the euro area
  - Be denominated in **Euro** and **held and settled** in the **Euro area**
  - Have underlying assets that include exposure to private and/or public entities
  - Have a minimum **first-best credit assessment** of credit quality step 3 (CQS3, currently equivalent to an ECAI rating of **BBB-** or equivalent); – for covered bond programmes which currently do not achieve the CQS3 rating in Cyprus and Greece, see below

CBPP3 – Covered Bond Purchase Programme 3

Overview (2/2)

Covered Bond Purchase Programme 3

Main features

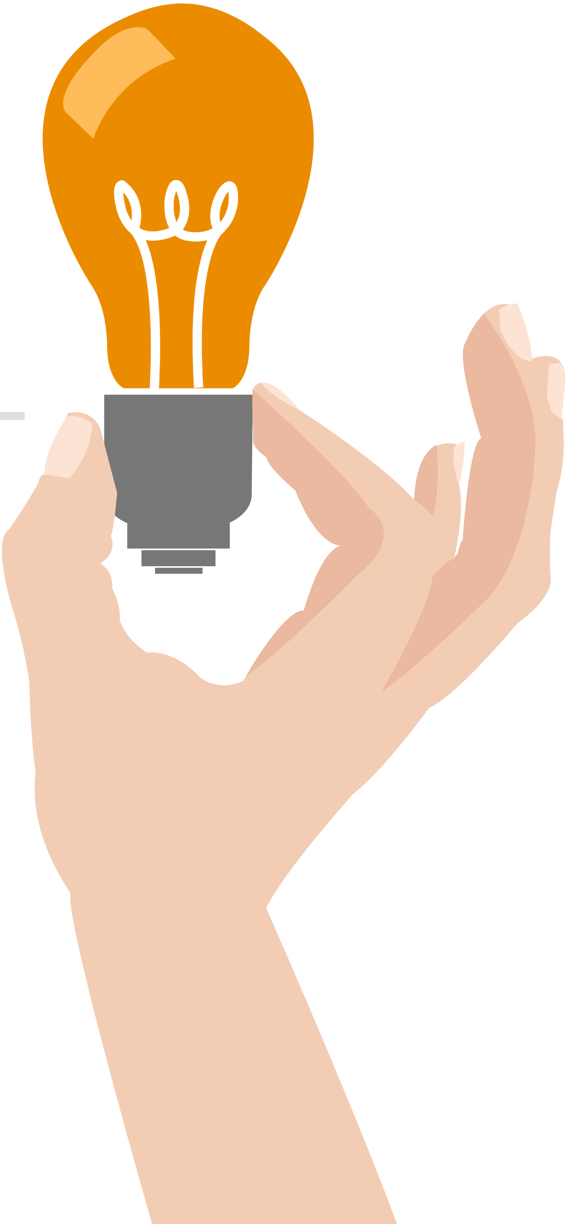
- Covered bonds issued by **entities suspended** from Eurosystem credit operations are **excluded** for the duration of the suspension.
- Counterparties eligible to participate in CBPP3 are those counterparties that are **eligible** for the **Eurosystem's monetary policy operations**, together with any of the counterparties that are used by the Eurosystem for the investment of its euro-denominated portfolios
- The Eurosystem will apply an issue **share limit of 70% per ISIN**, except 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
- **Cyprus and Greece:** for covered bond programmes which currently do not achieve the CQS3 rating, a minimum asset rating at the level of the maximum achievable covered bond rating will be required as long as the minimum credit quality threshold is not applied for marketable debt instruments issued or guaranteed by the Greek or Cypriot governments, with the following additional risk mitigants:
  - Monthly reporting of the pool and asset characteristics minimum committed over-collateralisation of 25%
  - Currency hedges with at least BBB- rated counterparties (non-euro-denominated claims) or, at least 95% assets are denominated in euro
  - Claims must be against debtors domiciled in the euro area

CBPP3 – Main features

Securities lending

CBPP3 available for voluntary securities lending

ECB has decided to make its CBPP3 portfolio available for lending. Lending will be voluntary and conducted through security lending facilities offered by central securities depositories, or via matched repo transactions with the same set of eligible counterparties as for CBPP3 purchases.



CBPP3 – FAQ
Eligibility Criteria

1 Eligibility Criteria

Q1.1 What are the maximum and minimum maturities of covered bonds eligible for purchase under the CBPP3?
No maximum or minimum maturity has been defined for the programme.

Q1.2 What is the minimum issuance volume of covered bonds eligible for purchase under the CBPP3?
No minimum issuance volume has been defined for the programme.

Q1.3 How is a covered bond purchased under the CBPP3 treated if it has two or more ratings? Which rating do you use?
If multiple, and possibly conflicting, ECAI assessments are available (i.e. external credit ratings provided by any of the four external credit assessment institutions, or eligible credit rating institutions, namely Standard & Poor's, Fitch, Moody's and DBRS), the first-best rule will be applied.

Q1.4 The eligibility criteria for the CBPP3 foresee that only securities accepted for own-use can be purchased. Can you confirm this and also describe the treatment given to *multi-cédulas*?
In principle, all covered bonds that comply with the eligibility criteria established in Part Four of Guideline (ECB/2014/60), as amended, are eligible. The rules for the own-use of covered bonds are set out in Article 138 of the Guideline. Concretely, this Article states that the Eurosystem exempts specific debt instruments from the "close links" rule. As such, covered bonds can be "own-used" as collateral by the issuer (or by a closely linked counterparty) if they comply with the CRD/CRR. The actual or potential inclusion of government-guaranteed bank bonds in a pool of covered bonds pursuant to Article 139(1)(b) of Guideline (ECB/2014/60) does not affect the eligibility of such covered bonds for own-use. From 1 February 2020 covered bonds can be own-used only if they have an ECAI rating. *Multi-cédulas* are considered eligible for CBPP3 purchases as clarified in the ECB Decision of 15 October 2014 (ECB/2014/40).

Q1.5 Are registered covered bonds (e.g. German *Namenspfandbriefe*) part of the investable universe?
Namenspfandbriefe are not eligible under the Eurosystem collateral framework, as these instruments do not meet the criterion that a debt instrument must be transferable in book-entry form (Article 67(1) of Guideline ECB/2014/60). Instead, the transfer of a *Namenspfandbrief* usually takes the form of an assignment, as the owner is registered in a separate register.

Q1.6 Does the prohibition of monetary financing, as laid down in Article 123 of the Treaty on the Functioning of the European Union, have to be respected under the CBPP3 in terms of purchases of bonds issued by publicly owned credit institutions?
Purchases made under the CBPP3, which are monetary policy operations and constitute supply of reserves, make no distinction between covered bonds issued by public sector credit institutions and those issued by private sector institutions. This is in line with the provisions of Article 123(2) of the Treaty.

Q1.7 Does the issue share limit of 70% apply only to CBBP3 holdings?
No, the 70% limit applies to the combined holdings of all three of the Eurosystem's covered bond purchase programmes and the Eurosystem's investment portfolios.

Q1.8 Why are conditional pass-through covered bonds no longer eligible for purchase?
The Governing Council decided to exclude conditional pass-through covered bonds from purchases under the CBPP3, as of 1 January 2019. The decision reflects their somewhat more complex structure. The decision was taken within the context of the CBPP3 and has no consequences for the eligibility of conditional pass-through covered bonds in the Eurosystem collateral framework.

CBPP3 – FAQ

Retained Bonds, Procedures, Collateral Eligibility

2 Retained Bonds

3 Procedures

4 Collateral Eligibility

Q2.1 Why would a bank sell retained covered bonds to the CBPP3 when they can be placed at the ECB for repo purposes?
It is up to individual institutions to manage their own funding sources, including liability structure, maturity breakdown and any decision between the market-placement and retention of bonds.

Q2.2 Does the issue share limit of 70% per international securities identification number (ISIN) also apply to "fully retained" issues?
Yes.

Q3.1 Does the Eurosystem share income and losses generated by the CBPP3?
As a general rule, income and losses from decentralised monetary policy operations conducted by the Eurosystem are shared.

Q3.2 Does the Eurosystem apply any specialisation in purchases across jurisdictions and maturities?
For efficiency reasons, the Eurosystem's internal decisions on the allocation of particular purchases to its members take due account of their specific competencies.

Q4.1 Under the CBPP3, the Eurosystem is able to buy up to 70% of a securities issue per international securities identification number. In the case of the remaining 30%, are these eligible for Eurosystem repo purposes, assuming they meet the covered bond requirement criteria?
If all eligibility criteria are fulfilled, the remaining outstanding amount of the covered bonds can be used as collateral in Eurosystem credit operations.

CBPP3 – FAQ
Securities Lending

Q5.1 Why is securities lending of CBPP3 holdings not mandatory for the Eurosystem?
For cost efficiency and operational reasons, securities lending of holdings under CBPP3 is not mandatory for Eurosystem central banks. The establishment and maintenance of securities lending arrangements has a certain cost for the Eurosystem central banks. The total cost depends on a number of factors, such as the lending channel, the lending infrastructure, the number of securities available for lending, the type of collateral accepted and other technical and operational parameters. The overall Eurosystem cost increases if several central banks make the same security available for lending.

Covered bonds purchased under the CBPP3 are often held by several (i.e. more than two) Eurosystem central banks, which is due to the programme-specific allocation of the eligible universe to individual Eurosystem central banks. This is in contrast to the PSPP and CSPP allocation, where each security is held by one or at most two Eurosystem central banks. Moreover, the CBPP3 allocation often results in individual central banks having relatively small holdings, so that the benefit of setting up and maintaining securities lending facilities would not justify the cost. However, even though lending the CBPP3 holdings is not mandatory, the ECB and several other national central banks make their CBPP3 (as well as CBPP and CBPP2) bonds available for lending. Those Eurosystem central banks that do not make their holdings available for lending very rarely receive requests to borrow them. For them, the expected demand would not justify the cost of establishing securities lending facilities. Most importantly, holdings from each covered bond jurisdiction are made available for lending by at least one Eurosystem central bank.

Q5.2 Why does the Eurosystem not publish the ISIN lists of its CBPP3 holdings for securities lending purposes?
The Eurosystem publishes the ISIN lists only for those programmes (PSPP and CSPP) for which the Governing Council has decided to make securities lending mandatory. Thus the Eurosystem does not publish the ISIN lists for its CBPP3 holdings as securities lending is not mandatory for this programme. Counterparties that wish to borrow CBPP3 holdings can contact the ECB or any NCB that makes those bonds available for lending to enquire about the potentially availability of their holdings of particular ISINs.

CBPP3 – FAQ

Conduct, communication, territory-specific situations

Q6.1 How are CBPP3 purchases conducted? What will change with the restart of net purchases?
No changes have been made to the eligibility criteria or guiding principles. Market capitalisation will continue to be the guiding principle for CBPP3 purchases. The Eurosystem will also continue to adhere to the principle of market neutrality via smooth and flexible implementation. Purchases of securities in primary markets continue to be permitted as necessary. Since 12 September 2019 purchases of eligible covered bonds at yields to maturity below the deposit facility rate can be conducted to the extent necessary. Data on the CBPP3 holdings will continue to be published with the same frequency: ex post and on a weekly basis for the size of the CBPP3 holdings, on a monthly basis for the breakdown of primary and secondary market holdings, and half-yearly for the breakdown by country of risk and rating.

Q6.2 My internal compliance unit asks if the Eurosystem would give permission to say, for example, "We have seen decent buying by the Eurosystem of 5-7 year Dutch covered bonds in bigger clips, which tightened spreads by 2 basis points." (We would never state which Eurosystem member, always using the more general term "Eurosystem".)
In this specific case we would agree that, for the CBPP3, counterparties could communicate that *the Eurosystem* had been buying, but *not* the exact amounts, the securities involved or which Eurosystem member.

Q6.3 Where on the ECB's website can I find a list of the Eurosystem's current holdings of covered bonds?
Information on CBPP3 holdings can be found in the section on Asset purchase programmes.

Q6.4 Does the Eurosystem act as a "regular" investor when conducting purchases under the CBPP3?
The Eurosystem purchases covered bonds at prevailing market prices or, in the case of retained bonds, at prices that take into appropriate consideration all embedded risks.

Q6.5 Banks in some countries do not issue covered bonds and do not own asset-backed securities. How does the Eurosystem help those banks if they do not own securities that the Eurosystem is willing to purchase?
Even if the market is small/non-existent at the moment, the mere fact that the Eurosystem is willing to buy asset-backed securities and covered bonds could encourage banks from these jurisdictions to issue such instruments.

CBPP3 – FAQ

Reason to buy CBs, consent situations, private placements

Q6.6 The CBPP3 will crowd out private sector investors unless the new supply of eligible bonds rises substantially. The covered bond market also has no structural deficiencies and is thus clearly not in need of yet another ECB purchase programme. *Why have you nevertheless decided to buy covered bonds?*
Covered bonds have some features that are important from a monetary policy perspective. First, the link that is established on the issuing bank's balance sheet between the covered bond, on the one hand, and the loans that back the covered bond, on the other, is reasonably tight. As the prices for covered bonds increase, we expect banks to respond by originating more covered bonds and thus more loans to collateralise them. Second, outright interventions in this market will complement other purchases by reinforcing the portfolio rebalancing channels of monetary policy transmission and generating positive spillovers into other markets and securities. This will further ease funding and credit conditions. Third, taken together, the Eurosystem's non-conventional measures should be seen as complementing one another, strengthening the combined impact on liquidity and the economy. Finally, purchases take due account of market functioning.

Q6.7 Why did you switch from a daily publication of covered bond purchases to a weekly one?
The ECB decided to harmonise publication practices regarding the different monetary policy portfolios. For the covered bond purchase programmes and the Asset-Backed Securities Purchase Programme in particular, it was decided to adopt the publication practices already in place for the Securities Markets Programme to ensure greater consistency. The weekly publication of the settled amounts is in line with the medium-term objectives of the programmes and is consistent with the weekly release of the Eurosystem financial statement.

Q6.8 Could the Eurosystem have preferred creditor status for the CBPP3?
There is no legal basis on which the ECB could either claim or enforce preferred creditor status in the event of a default on covered bonds it has purchased under the CBPP3. That said, covered bonds qualify as senior secured debt, which under Article 38(1)(b) of the Bank Recovery and Resolution Directive is explicitly exempt from any bail-in measure in the event of bank resolution.

Q6.9 There have been an increasing number of *consent solicitations* in the covered bond market with issuers asking investors to approve changes to the terms of outstanding bonds or specific programme details. Given the Eurosystem's large presence in the covered bond market, has it adopted any general stance towards consent solicitations?
The Eurosystem has noted the increasing number of consent solicitations in the euro area covered bond market and has continued to thoroughly examine the merits of each individual case in developing a consistent approach towards such consent solicitations. The Eurosystem will normally aim to adopt a neutral approach towards consent solicitations thereby facilitating a market-based decision on the changes proposed. Furthermore, the Eurosystem is of the view that improvements could be made to two features of the consent solicitation process: The Eurosystem has reservations about the practice of only paying the consent solicitation fee to those bondholders who vote in favour of the proposal. Such an approach is viewed as inadequate. Rather, the Eurosystem is of the view that any such fee should be paid to all bondholders when changes are approved, to compensate all bondholders for the impact of those changes. Efforts to make the consent solicitation process more transparent (for example, more precise data on voter participation) should be considered.

Q6.10 Can the Eurosystem participate in private placements of CBPP3 eligible covered bonds?
Yes, the Eurosystem can participate in the purchase of CBPP3 eligible covered bonds via private placement. Similarly to public placements and purchases in the secondary market and as outlined in the CBPP3 Technical Annex 2, the Eurosystem will apply an issue share limit of 70% per ISIN. Market participants involved in the private placement can contact the relevant national central bank which acts as the contact point for the Eurosystem.

6

Public Sector Purchase Programme (PSPP)

Public Sector Purchase Programme

Implementation Aspects and Securities covered by the PSPP

Implementation Aspects

In implementation of PSPP, the Eurosystem purchases in gradual and broad-based manner, aiming to achieve **market neutrality**.

In principle, purchases of nominal marketable debt instruments at a **negative yield to maturity** are permissible.

According to the configuration of the PSPP, substitute purchases need to be complemented to implement the relevant NCB's share of purchases through the end of the APP including the APP reinvestment phase.

If these substitute purchases comprise marketable debt instruments issued by international or supranational institutions located in the euro area, such purchases will be subsumed under the 10% allocation for these securities in the PSPP (from March 2015 until March 2016: 12%). The remaining purchases of marketable debt instruments issued by international or supranational institutions located in the euro area will be conducted on behalf of the Eurosystem by the Banco de España and the Banque de France.

Securities covered by the PSPP include

- Nominal and inflation-linked central government bonds
- Bonds issued by recognised agencies, regional/local governments, international organisations and multilateral development banks located in the euro area

Since December 2018 government bonds and recognised agencies make up around 90% of the total portfolio, while securities of international organisations/multilateral development banks are around 10%. These proportions will continue to guide the net purchases.

PSPP

Eligible institutions and agencies

International & supranational institutions ...

... and agencies

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 as follows:

International or supranational institutions located in the euro area

- Council of Europe Development Bank
- European Atomic Energy Community
- European Financial Stability Facility
- European Stability Mechanism
- European Investment Bank
- European Union
- Nordic Investment Bank

- Action Logement Services (ALS)
- ADIF-Alta Velocidad
- Agence centrale des organismes de sécurité sociale (ACOSS)
- Agence de Promotion Immobilière du Brabant wallon (APIBW)
- Agence Française de Développement (AFD)
- Agence France Locale (AFL)
- Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A. (Invitalia)
- Assistance Publique-Hôpitaux de Paris (AP-HP)
- Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft (ASFINAG)
- BNG Bank N.V.
- Bayerischen Landesbodenkreditanstalt (BayernLabo)
- Bpifrance Financement
- Caisse d'Amortissement de la dette sociale (CADES)
- Caisse des dépôts et consignations (CDC)
- Cassa del Trentino S.p.A.
- Cassa Depositi e prestiti S.p.A. (CDP)
- Caisse Nationale des Autoroutes (CNA)
- CDC Habitat
- Družba za avtoceste v Republiki Sloveniji, d.d. (DARS)
- Finlombarda S.p.A.
- Finnvera PLC
- Fondo de Amortización del Déficit Eléctrico, Fondo de Titulización de Activos (FADE)
- Fonds Du Logement Des Familles Nombreuses De Wallonie Scrl (FLW)
- Fonds régional bruxellois de refinancement des trésoreries communales (FRTC)
- Groupement des Centres Hospitaliers Universitaires (CHU)/Centres Hospitaliers Régionaux (CHR)
- Hamburgische Investitions- und Förderbank (IFB Hamburg)
- Housing Finance Agency plc (HFA)
- Île-de-France Mobilités (previously STIF)
- Infrabel SA
- Infraestruturas de Portugal S.A. (IP)
- IN'LI
- Instituto de Crédito Oficial (ICO)
- Instituto de Finanzas de Cantabria (ICAF)
- Investitionsbank Berlin (IBB)
- Investitionsbank des Landes Brandenburg (ILB)
- Investitionsbank Schleswig-Holstein (IB.SH)
- Attistibas finanšu institucija Altum
- Kreditanstalt für Wiederaufbau (KfW)
- Kuntarahoitus Oyj/Municipality Finance PLC (MuniFin)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank)
- Landwirtschaftliche Rentenbank
- LfA Förderbank Bayern
- Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)
- Nederlandse Waterschapsbank N.V. (NWB Bank)
- NRW.BANK
- ÖBB-Infrastruktur A.G.
- Oesterreichische Kontrollbank A.G. (OeKB)
- PARPÚBLICA – Participações Públicas S.A. (SGPS)
- Sächsische Aufbaubank – Förderbank (SAB)
- SFIL S.A.
- SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (SID banka)
- Slovenski državni holding, d.d. (SDH)
- SNCF Réseau
- Société du Grand Paris (SGP)
- Société wallonne du crédit social SA (SWCS)
- Société Wallonne du Logement SA (SWL)
- Työllisyysrahasto (previously Työttömyysvakuutusrahasto (TVR))
- Unédic
- Wirtschafts- und Infrastrukturbank Hessen (WIBank)
- Wohnbau Burgenland GmbH

PSPP – FAQ

Monthly purchase amount, convergence with capital key, allocation

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Monthly purchase amount, convergence with capital key, allocation

Q0.1 What is the monthly purchase amount following the restart of net purchases under the asset purchase programme (APP) for PSPP?
The Governing Council decided to restart net purchases under each constituent programme of the asset purchase programme (APP), i.e. the public sector purchase programme (PSPP), the asset-backed securities purchase programme (ABSPP), the third covered bond purchase programme (CBPP3) and the corporate sector purchase programme (CSPP), at a monthly pace of €20 billion as from 1 November 2019.

The Eurosystem continues to adhere to the principle of market neutrality via smooth and flexible implementation. As during the first net purchase phase between 2015 and 2018, the programme operating in the most liquid market, the PSPP, will act as a buffer to ensure the precise fulfilment of the overall monthly purchase target.

Gross purchases under the PSPP have a reinvestment component and a net purchase component. The reinvestment of principal redemptions will continue to be distributed throughout the year to allow for a regular and balanced market presence. This approach allows for continuity and flexibility and avoids temporary market dominance.

The net purchases will be allocated according to the same principles as during the first net purchase phase between 2015 and 2018.

Q0.2 How do you plan to converge towards the capital key after the restart of net purchases?
PSPP purchases will continue to be guided by the ECB capital key on a stock basis. The ECB capital key provides a straightforward and stable guideline for the composition of purchases across jurisdictions. The Eurosystem will continue to gear its monthly purchase allocation to align a jurisdiction's share in the stock of PSPP purchases as closely as possible with the respective share of the ECB capital key by the end of the net asset purchases. This gradual adjustment over time gives due consideration to market neutrality and safeguards orderly market functioning.

Q0.3 What is being reinvested in the reinvestment component of purchases under the APP?
Redemptions are reinvested in the jurisdiction in which principal repayments are made. Coupon or interest payments are not reinvested. For redemptions of bonds issued by EU supranational institutions, reinvestments may be conducted across eligible EU supranational issuers.

Q0.4 Do NCBs only buy their own sovereign bonds or can purchases vary?
NCBs continue to buy only their respective sovereign bonds and not those of other jurisdictions. Some NCBs conduct purchases of EU supranational bonds to meet the 10% purchase share for these securities.

PSPP – FAQ

Conducting NCBs, deviations from capital key, allocations across jurisdictions

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Conducting NCBs, deviations from capital key, allocations across jurisdictions

Q0.5 Which NCBs buy EU supranational securities?
On 24 October 2019 the Governing Council decided that purchases of marketable debt securities issued by international organisations and multilateral development banks will be conducted by fewer national central banks to simplify implementation and protect market functioning.

The following NCBs conduct purchases of EU supranational bonds to meet the 10% purchase share:

- Eesti Pank
- The Bank of Greece
- The Banco de España
- The Banque de France
- Latvijas Banka
- Národná Banka Slovenska

In addition, the Banque centrale du Luxembourg reinvests its redemptions of EU supranational bonds.

Q0.6 Why are there substantial temporary deviations from the ECB capital key in the monthly net purchases under the PSPP in certain months?
The monthly net purchase figures for individual jurisdictions are primarily driven by the PSPP reinvestment modalities. The reinvestment of principal redemptions in a jurisdiction is distributed over the calendar year to allow for a regular and balanced market presence. This distribution mechanism leads to differences in the timing of reinvestments and redemptions at the level of individual jurisdictions. These differences are also reflected in temporary deviations of monthly net purchases from the ECB capital key, whether these be upward or downward deviations. However, over the course of the calendar year the monthly deviations will to a large extent cancel each other out.

For Germany for example, redemptions were low in November 2019, while substantial reinvestments were conducted for redemptions from other months. The differences in timing of reinvestments and redemptions under the PSPP reinvestment modalities thus resulted in a German share of the November net purchases which exceeds the share implied by the ECB capital key.

The upward deviation for Germany in that month mechanically led to downward deviations from the capital key for the other large jurisdictions. The same mechanism had already led to deviations of a similar magnitude among large jurisdictions during the reinvestment phase in January, April, May and October 2019.

Q0.7: How are you allocating the PSPP monthly net purchases across jurisdictions?
PSPP purchases are guided by the ECB capital key on a stock basis over the life of the programme. In order to implement the allocation, the Eurosystem gears its monthly purchases to align a jurisdiction's share in the PSPP stock over the medium term as closely as possible with the respective share of the ECB capital key.

Monthly fluctuations largely reflect the variability in the redemption and reinvestment profiles, as well as market liquidity conditions experienced during the purchasing month. They do not therefore necessarily reflect persistent adjustments to an individual jurisdiction's share in net purchase amounts.

PSPP – FAQ

Maturity restrictions, regional & local bonds, agencies issues, STRIPS

1 **Maturity restrictions, regional & local bonds, agencies issues, STRIPS**

Q1.1 What exactly does the 1 to 30-year maturity restriction mean?
The maturity restriction means that the Eurosystem only buys securities which, at the time of purchase, have a minimum remaining maturity of 1 year (i.e. purchases of securities with a remaining maturity of 364 days are NOT possible) and a maximum remaining maturity of less than 31 years (i.e. purchases of securities with a remaining maturity of 30 years and 364 days are possible).

Q1.2 What does the inclusion of regional and local bonds to the PSPP mean and why was the decision to add them taken?
On 3 December 2015, the Governing Council decided that euro-denominated marketable debt instruments issued by regional and local governments located in the euro area would become eligible for regular PSPP purchases. This decision referred only to those regional and local bonds that meet all other eligibility criteria, in particular the minimum rating requirement as stated in Decision (EU) 2015/774. Regional and local bonds are only purchased by the NCBs of the jurisdiction in which the issuing entity is located.

Q1.3 What are the criteria for securities issued by agencies located in the euro area to be eligible for purchase under the PSPP?
The criteria used for recognised agencies in the collateral framework and agencies eligible for the public sector purchase programme (PSPP) have been aligned since the publication of Guideline ECB/2019/11 amending Guideline 2015/510. Since 5 August 2019, the agencies eligible for PSPP are listed in the harmonised list of recognised agencies.

Q1.4 Are STRIPS eligible under the PSPP? Why does the Eurosystem adjust PSPP net purchases for redemptions of coupon STRIPS?
While Separate Trading of Registered Interest and Principal Securities (STRIPS) are eligible for the PSPP in theory, the Eurosystem refrains from buying them in the market for operational reasons. Stripping operations by other bond holders impact the usage of issue limits of PSPP-eligible securities by the Eurosystem. In order to avoid a situation where bond stripping operations by other bond holders may result in a limit being exceeded (which could lead to potential sales by the Eurosystem), the Eurosystem decided in the past to conduct a few counterbalancing stripping operations.

While coupon STRIPS repayments are technically redemptions of securities, they are economically coupon payments. The Eurosystem has chosen the general approach not to reinvest coupon payments and therefore does not reinvest coupon STRIPS (while maturing principal STRIPS are effectively reinvested). Maturing coupon STRIPS are therefore removed from PSPP redemptions as part of the computation of data published on the APP website.

PSPP – FAQ

Allocation of purchases – capital key, composition assessment, allocations, coordination

2 Allocation of purchases

2.1 Allocation of purchases

Q2.1.1 When the programme was announced, the ECB said that the purchases would be divided between countries on the basis of the ECB's capital key. Are the weightings applied on a monthly basis, with each NCB buying the proportionate amount each month, or do these shares refer to the programme as a whole?
The ECB capital key guides net purchases under the PSPP on a monthly basis. However, this does not imply that precise achievement of the capital key shares every month, as flexibility on a monthly basis supports the smooth implementation of the programme. Moreover, the timing of a jurisdiction's reinvestment of principal redemptions, and the possibility to distribute these reinvestments over time, may affect the jurisdiction's share in the monthly purchase volume and, inversely, the shares of other jurisdictions. Redemptions are reinvested in the jurisdiction in which principal repayments are made, while the portfolio allocation across jurisdictions continues to be adjusted with a view to bringing the share of the PSPP portfolio into closer alignment with the respective national central bank's subscription to the ECB capital key, subject to issue and issuer limits, the principle of market neutrality, and other programme constraints.

Q2.1.2 Does the Governing Council decide each month on the exact composition of the asset purchases to be made and instruct the national central banks (NCBs) to carry out these purchases, or do the NCBs have a degree of flexibility?
The flexibility is granted to NCBs and this flexibility is regularly assessed by the Governing Council, which may adjust the implementation framework in this regard on the basis of the experience gained.

Q2.1.3 How do NCBs allocate purchases between agency, regional and sovereign securities per jurisdiction?
Spreading purchases flexibly across the different asset classes included in the programme helps to preserve market neutrality. Flexibility in the day-to-day selection of securities to be purchased in a jurisdiction is conducive to preserving market liquidity. The Eurosystem actively incorporates the offers from a broad range of counterparties in the daily bond selection. In addition, significant efforts are undertaken to avoid buying securities that are scarce, as measured by metrics such as relative value indicators, pricing in the repo market and trading volumes.

Q2.1.4 If an NCB purchased EU supranational securities as substitutes to fulfil its share in the ECB capital key in the past, will it continue to do so after the restart of net purchases?
Substitute purchases may be conducted to complement the purchase of marketable debt instruments issued by the government and agencies of a country. In case a need is identified for a given country, the share of substitute purchases may be calibrated in order to allow the Eurosystem to continue buying eligible marketable debt instruments issued by that country's government and agencies until the end of net purchases.

Q2.1.5 Will the coordination of purchases change after the restart of net purchases? How do you coordinate the purchases between the NCBs?
PSPP purchases are conducted by the entire Eurosystem and the ECB continues to coordinate all asset purchases within the Eurosystem. Net purchases and reinvestments are coordinated in a similar way to purchases under previous phases of the APP. The ECB does not purchase debt securities issued by EU supranational institutions and does not buy regional and local government bonds. These are only purchased by NCBs.

PSPP – FAQ

Allocation of purchases – supranational share, maturity target, Purchases below deposit facility rate

2 Allocation of purchases

Q2.1.6 Why was the share of EU supranational bond purchases within the monthly PSPP purchases lowered from 12 to 10% in April 2016?
A reduction of the share of purchases of bonds issued by EU supranational institutions supports the continued smooth and market-neutral implementation of the PSPP in view of the outstanding eligible securities and applicable limits under the programme. As risk sharing within the PSPP applies to purchases of supranational bonds and purchases conducted by the ECB, the reduction in the share of EU supranational bonds was accompanied by an increase in the share of purchases conducted by the ECB from 8 to 10% of monthly PSPP purchases. The risk-shared part of the PSPP therefore remained unchanged at 20%.

Q2.1.7 Is there a maturity target for gross purchases?
There is no maturity target for purchases. The purchases are conducted in a flexible manner across all eligible maturities in order to ensure market neutrality.

Q2.1.8 How do you weigh different maturity buckets for your purchases?
The intention is to be market-neutral. The Eurosystem wants to create as little distortion as possible. At the same time, flexibility is applied, including to take into account the relative values of bonds and the liquidity of the different maturity segments.

2.2 Purchases below the deposit facility rate (DFR)

Q2.2.1 Will purchases below the DFR continue after the restart of net purchases? What is the precise meaning of the expression "to the extent necessary" when referring to PSPP purchases at yields below the DFR?
Purchases of securities with a yield to maturity below the interest rate on the ECB's deposit facility continue to be undertaken to the extent necessary after the restart of net purchases. For each jurisdiction, priority is given to purchases of assets with yields above the DFR. This means that some jurisdictions with eligible assets with yields below the DFR may require purchases at yields below the DFR and others may not, depending on the amount of assets with yields above the DFR available to fulfil the total PSPP volume for the jurisdiction in question. This amount may also change over time, reflecting changes in market interest rates relative to the DFR. In practice, the following procedure applies. First, the purchase amounts that would arise for each country from the application of the ECB capital key are determined (due to the PSPP programme constraints, this process has resulted in a re-allocation of purchases across countries and the use of substitute purchases since the beginning of the PSPP). Second, the minimum amount of bonds that needs to be purchased at yields below the DFR in order to achieve the required purchase amounts is determined for each jurisdiction. In this way, the approach minimises purchases of bonds with yields below the DFR within each jurisdiction. This mechanism can be reviewed in the future.

Q2.2.2 Why do you make purchases at yields below the DFR while you still have other bonds available?
The Eurosystem can estimate, with a reasonable degree of certainty, the necessary extent of purchases at yields below the DFR on the basis of market conditions. The need to preserve smooth market functioning calls for the necessary amount of purchases at yields below the DFR to be distributed over time, rather than abruptly changing the sectors of the yield curve where PSPP purchases take place.

Q2.2.3 Do purchases at yields below the DFR impose losses on national central banks?
Our mandate is to pursue price stability, not to maximise central bank profits. While purchases of bonds with yields below the DFR result in interest expenses, this effect is limited. Moreover, purchases at yields below the DFR are only made to the extent necessary and generally represent only a small proportion of Eurosystem purchases. The impact of such purchases on the profit and loss account is also limited by the relatively short maturity of such bonds.

PSPP – FAQ

Other general implementation issues – transparency, primary market purchases, sales purchased securities, revinvestment

2 Other general implementation issues

2.3 Other general implementation issues

Q2.3.1 How can I see how much the Eurosystem has purchased each month under the expanded asset purchase programme (APP)?
Each month the ECB publishes both the monthly net purchases and the total holdings for the ABSPP, CBPP3, CSPP and PSPP, allowing the public to see the amounts purchased under each constituent programme of the APP. Net purchases under the APP are calculated at book value and do not include the amortisation, which may increase (or decrease) the value of the holdings over time. The amortisation occurs on a quarterly basis and emerges from an accounting principle that implies that securities purchased at prices below face value have to be revalued upwards over time towards maturity, while securities purchased at prices above face value will be revalued downwards over time. The amortisation does not alter the liquidity injected into the banking system through the purchases under the APP. Figures included in the tables on the public website, along with the historical time series available in .csv files, include the net purchases, quarter-end amortisation adjustments when applicable, and the value of the holdings (which includes the amortisation effect).

Q2.3.2 Does the Eurosystem buy government, agency or supranational bonds in the primary market?
There will be no primary market purchases under the PSPP, regardless of the type of security, as such purchases are not allowed under Article 123 of the Treaty on the Functioning of the European Union.

Q2.3.3 Can the Eurosystem sell securities purchased under the APP?
Sales of securities purchased under the APP are not expected to occur regularly, although there are no formal (e.g. accounting) constraints that would preclude securities from being sold. Indeed, adjustments to holdings of individual securities purchased under the APP may occur from time to time if needed for technical reasons (e.g. to ensure continued compliance within the limit framework). Such sales would be offset by additional gross purchases. In the case of the PSPP, these additional purchases are in the same jurisdiction.

Q2.3.4 How are PSPP redemptions reinvested?
Redemptions are reinvested in the jurisdiction in which principal repayments are made. The reinvestment is distributed over the entire year to allow for a regular and balanced market presence and to avoid temporary market dominance. This approach has been followed since January 2019 and will apply after the restart of net purchases. EU supranational securities are reinvested in the month they fall due on a best effort basis, or in the surrounding two months if warranted by market liquidity conditions. The first PSPP redemptions occurred in March 2017 and principal payments on the securities purchased were reinvested as they matured. Between March 2017 and December 2018, principal redemptions on securities purchased under the PSPP were reinvested by the Eurosystem in a flexible and timely manner in the month they fell due, on a best effort basis, or in the subsequent two months if warranted by market liquidity conditions.

Q2.3.5 How is the remaining weighted average maturity (WAM) of PSPP holdings calculated? What affects the remaining WAM of individual NCB's PSPP portfolios?
The remaining weighted average maturity (WAM) of PSPP holdings is calculated on a monthly basis and is published alongside the monthly net purchases and the total holdings for the ABSPP, CBPP3, CSPP and PSPP. The remaining WAM is calculated by weighting the current nominal outstanding amounts of PSPP holdings by the remaining maturity of these respective holdings. When assessing the remaining WAM of Eurosystem holdings relative to a market measure, deviations could reflect, among other things, the 1 to 30 year maturity range of purchases, the issue share limits taking into account holdings in other Eurosystem portfolios as well as the availability and liquidity conditions in the market during the implementation period.

PSPP – FAQ

Duration, other counterparties, communication

2 **Duration, other counterparties, communication**

Q2.3.6 What is the duration of purchases and how will duration be weighted?
There is no duration target for the programme.

Q2.3.7 What is meant by "other counterparties used by the Eurosystem for the investment of its euro-denominated portfolios"?
The purchases are conducted by the ECB and the NCBs with eligible counterparties, including counterparties with whom the Eurosystem trades in the context of non-monetary policy investment activities.

Q2.3.8 My internal compliance unit asks what kind of information on the Eurosystems's PSPP transactions the Eurosystem would give us permission to disclose to third parties? E.g. would a statement such as the following be acceptable: "We have seen decent buying by the Eurosystem of 5 - 7 year Italian government bonds in bigger clips, which tightened spreads by 2 basis points." (We would never state which Eurosystem member, always using the more general term "Eurosystem".)
In this specific case we would agree that, for the PSPP, counterparties could indeed communicate to third parties that the Eurosystem had been buying in a certain market and maturity bucket. However, our counterparties shall not disclose the amounts transacted, the individual securities involved, or which Eurosystem member was buying. Particular care has to be taken for issuers with relatively few outstanding issues, where substantially broader maturity ranges have to be chosen.

PSPP – FAQ

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Q3.1 How high are the issue share limit and the issuer limit? Do the limits include bonds purchased under the Securities Markets Programme and under the Eurosystem's own (i.e. non-monetary policy) portfolios? Regarding the issuer limit, is the denominator the whole debt or just the debt with a maturity of 1 to 30 years?
At the start of the PSPP, the issue share limit was set at 25%, to be reviewed after six months (Article5(1) of the decision of 4 March 2015 states that "the limit will initially be set at 25% for the first six months of purchases and subsequently reviewed by the Governing Council").

On 3 September 2015, the Governing Council decided to increase it to 33% subject to a case-by-case verification that this would not create a situation whereby the Eurosystem would have a blocking minority for the purposes of collective action clauses, in which case the issue share limit would remain at 25%.

The issue share limit refers to the maximum share of a single PSPP-eligible security that the Eurosystem is prepared to hold.

The issuer limit refers to the maximum share of an issuer's outstanding securities that the ECB is prepared to buy. The issuer limit of 33% is a means to safeguard market functioning and price formation as well as to mitigate the risk of the ECB becoming a dominant creditor of euro area governments. To this end, the 33% limit is applied to the universe of eligible assets in the 1 to 30-year range of residual maturity.
Both limits also cover existing Eurosystem holdings of PSPP-eligible bonds in the context of the Securities Markets Programme and any other portfolios owned by Eurosystem central banks.

Q3.2 Are the issue share and issuer limits based on nominal or market value?
These limits are based on nominal values.

Q3.3 Why have the issuer and issue share limit for EU supranational bonds been increased from 33 to 50%?
Increasing the issuer and issue share limit for EU supranational bonds provides additional flexibility in the implementation of the PSPP.

Q3.4 To which entities do the 50% issuer and issue share limit apply?
The 50% issuer and issue share limit apply to entities listed as "International or supranational institutions located in the euro area" on this page. Note that this list does not include eligible agencies located in the euro area.

PSPP – FAQ
Securities lending

Q4.1 As regards PSPP securities lending against cash collateral, how is the overall limit set?
When the Eurosystem started to accept cash as collateral in December 2016, the Governing Council of the ECB decided on a limit of €50 billion, taking into account the expected usage of cash as collateral and its effect on excess liquidity. In March 2018 the limit was increased to €75 billion, among other things to reflect the increase in the stock of acquired assets since December 2016.

Q4.2 How is the limit of €75 billion allocated across the Eurosystem?
The limit is allocated in proportion to the PSPP holdings of the Eurosystem central banks that make use of the possibility to accept cash as collateral, while allowing for some flexibility across jurisdictions if needed.

The following Eurosystem members accept cash as collateral in their securities lending: the ECB, the Nationale Bank van België/Banque Nationale de Belgique, the Deutsche Bundesbank, the Central Bank of Ireland, the Banco de España, the Banque de France, the Banca d'Italia, De Nederlandsche Bank, Banka Slovenije and Suomen Pankki – Finlands Bank.

Q4.3 Will the PSPP securities lending facilities remain in place after the restart of net purchases?
ECB Decision 2015/10 on a secondary market public sector asset purchase programme states that the Eurosystem makes securities purchased under PSPP available for lending, with a view to ensuring the effectiveness of the PSPP. This includes securities purchased during the reinvestment period and after the restart of net purchases.

4 Securities lending

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