



EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Bernard Monot

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 25 November 2014

L/MD/14/490

Re: Your letters (QZ28 and QZ29)

Honourable Member of the European Parliament, dear Mr Monot,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 10 October 2014.

The asset-backed securities purchase programme (ABSPP) will lead to only limited additional risk exposure as the assets purchased will have to satisfy high standards of transparency and simplicity and will be characterised by a low default risk.

Important elements of these standards are already embedded in the ECB's collateral framework. Regarding simplicity, the ECB does not accept as collateral – and consequently will not purchase – complex securitisations such as “squared” collateralised debt obligations or re-securitisations. Regarding transparency, the ECB only accepts as collateral those ABS which meet high standards, namely with regard to the disclosure of loan-level data.

As for the guaranteed mezzanine tranches, their intrinsic credit risk would correspond to that of the guarantor. In the absence of an adequate guarantee, the ECB would refrain from a purchase. The decision to initiate a guarantee scheme or to participate as guarantor, and the decision on the specific nature of the ABS guarantee scheme, lies exclusively with the potential guarantors.

Regarding the “funding” of the targeted longer-term refinancing operations (TLTROs), please note that in all monetary policy operations the Eurosystem extends loans to counterparties by providing them with deposits

drawn from the respective national central bank. The extension of loans to Eurosystem counterparties is, therefore, “funded” by a commensurate expansion of the Eurosystem’s deposit liabilities. These deposit liabilities can be used by the borrowing counterparties to fulfil their minimum reserve requirements, they can be held in the form of excess reserves as a buffer against future liquidity shocks, they can be converted into banknotes, or they can be passed on to other credit institutions in exchange for other assets or in settlement of liabilities. The funding of the Eurosystem’s lending operations to counterparties is, therefore, ensured by construction.

Yours sincerely,
[signed]

Mario Draghi