



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Luke Ming Flanagan
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 26 October 2018

L/MD/18/349

Re: Your letter (QZ-058)

Honourable Member of the European Parliament, dear Mr Flanagan,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 11 July 2018.

Responsibility for the provision of emergency liquidity assistance (ELA) lies at the national level, i.e. with the national central bank (NCB) concerned. This means that the NCB also incurs any risks and costs arising from the provision of ELA. In this respect, ELA creates an exposure for the NCB and this is duly recorded in its balance sheet.

Under Article 14.4 of the Statute of the European System of Central Banks and of the European Central Bank, the Governing Council of the European Central Bank (ECB) may object to the provision of ELA if it is found to interfere with the objectives and tasks of the European System of Central Banks (ESCB), including the Eurosystem's single monetary policy. Any assessment (in the form of a non-objection) by the Governing Council thus requires the NCBs to inform the ECB of the details of ELA operations, including the valuation of and any haircuts applied to the assets provided as collateral against any ELA exposure. The information exchanged between the NCBs and the ECB for each specific instance of ELA is confidential, as the ECB is not permitted to disclose potentially market-sensitive information on individual counterparties.

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The Agreement on emergency liquidity assistance¹, which was published in 2017 and replaced the ELA procedures² document posted on the ECB's website in October 2013 (and still available), provides further information on the Eurosystem's ELA framework. In that connection, I would like to elaborate on the ELA arrangements in place for risk management. The NCBs are responsible for managing ELA, provided that this does not interfere with the objectives and tasks of the ESCB. This implies that the NCBs may, in principle, decide independently on the assets they require for any ELA operation and on the risk control measures, such as valuations and haircuts, they apply to the collateral. The ELA framework, including the NCB's own risk assessment, should ensure that sufficient collateral is provided to cover the risks arising from ELA operations and therefore fully protect the financial independence of the NCB.³ Moreover, central bank credit, including ELA, may only be provided to solvent counterparties, as stated in the Agreement on emergency liquidity assistance.

As regards Ireland's Asset Covered Securities (ACS) Act of 2001 and the Asset Covered Securities (Amendment) Act of 2007, these are national legal acts which, together with related central bank regulations and regulatory notices, form the covered bond framework in Ireland.⁴ The ECB was consulted on both draft acts, and the legal opinions it provided are available on the ECB's website.⁵

Yours sincerely,

[signed]

Mario Draghi

¹ See "Agreement on emergency liquidity assistance", dated 17 May 2017, available at https://www.ecb.europa.eu/pub/pdf/other/Agreement_on_emergency_liquidity_assistance_20170517.en.pdf

² Information on ELA procedures is available at https://www.ecb.europa.eu/pub/pdf/other/201402_elaprocedures.en.pdf

³ Information on the financial risk management of the Eurosystem's monetary policy operations is available at https://www.ecb.europa.eu/pub/pdf/other/financial_risk_management_of_eurosystem_monetary_policy_operations_201507.en.pdf (see in particular Section 2.6)

⁴ Information on the collateral accepted by the Central Bank of Ireland from 2010 to 2012 and the respective legal instruments is available in its annual reports for the years 2010 (p. 104), 2011 (p. 30ff.) and 2012 (p. 33ff.), available at <https://www.centralbank.ie/publication/corporate-reports/annual-reports>

⁵ See ECB Opinion CON/2007/3 of 14 February 2007 and ECB Opinion CON/2001/6 of 25 April 2001, available on the ECB's website at http://www.ecb.europa.eu/ecb/legal/date/2007/html/act_9322_amend.en.html and https://www.ecb.europa.eu/ecb/legal/date/2001/html/act_5184_amend.en.html respectively.

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