

DECISION OF THE EUROPEAN CENTRAL BANK
of 15 October 2014
on the implementation of the third covered bond purchase programme
(ECB/2014/40)
(2014/828/EU)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union and, in particular to the first indent of Article 127(2) thereof,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank and, in particular to the second subparagraph of Article 12.1 in conjunction with the first indent of Article 3.1, and Article 18.1 thereof,

Whereas:

- (1) In accordance with Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the 'Statute of the ESCB'), the European Central Bank (ECB), together with national central banks of Member States whose currency is the euro (hereinafter the 'NCBs') may operate in the financial markets by, among other things, buying and selling marketable instruments outright.
- (2) On 4 September 2014 the Governing Council decided that a new covered bond purchase programme (hereinafter the 'CBPP3') should be initiated. Alongside the ABS purchase programme (ABSPP) and the Targeted Longer-Term Refinancing Operations (TLTROs) ⁽¹⁾, the CBPP3 will further enhance the transmission of monetary policy, facilitate credit provision to the euro area economy, generate positive spill-overs to other markets and, as a result, ease the ECB's monetary policy stance, and contribute to a return of inflation rates to levels closer to 2 %.
- (3) As part of the single monetary policy, the outright purchases of eligible covered bonds by Eurosystem central banks under the CBPP3 should be implemented in a uniform and decentralized manner, in accordance with this Decision,

HAS ADOPTED THIS DECISION:

Article 1

Establishment and scope of the outright purchase of covered bonds

The Eurosystem hereby establishes the CBPP3 under which the Eurosystem central banks shall purchase eligible covered bonds within the meaning of Article 2. Under the CBPP3, eligible covered bonds may be purchased by the Eurosystem central banks from eligible counterparties in the primary and secondary markets according to the counterparty eligibility criteria contained in Article 3.

Article 2

Eligibility criteria for covered bonds

Covered bonds that are eligible for monetary policy operations in line with section 6.2.1 of Annex I to Guideline ECB/2011/14 ⁽²⁾ and in addition, fulfil the conditions for their acceptance as own-used collateral as laid out in section 6.2.3.2. (fifth paragraph) of Annex I to Guideline ECB/2011/14, and are issued by credit institutions incorporated

⁽¹⁾ Decision ECB/2014/34 of 29 July 2014 on measures relating to targeted longer-term refinancing operations (OJ L 258, 29.8.2014, p. 11).

⁽²⁾ Guideline ECB/2011/14 of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem (OJ L 331, 14.12.2011, p. 1).

in the euro area, shall be eligible for outright purchase under the CBPP3. *Multicédulas* that are eligible for monetary policy operations in line with section 6.2.1 of Annex I to Guideline ECB/2011/14 and are issued by special purpose vehicles incorporated in the euro area shall be eligible for outright purchase under the CBPP3.

The abovementioned covered bonds shall be eligible for outright purchases under the CBPP3 provided that they satisfy the following additional requirements:

1. A minimum first-best credit assessment of credit quality step 3 (CQS3, currently equivalent to an External Credit Assessment Institution (ECAI) rating of 'BBB-' or equivalent), awarded by at least one of the ECAIs accepted within the Eurosystem Credit Assessment Framework (ECAAF) shall apply.
2. A 70 % issue share limit per international securities identification number to the joint holdings under the first ⁽¹⁾ and second ⁽²⁾ covered bond purchase programmes (the CBPP1 and CBPP2, respectively) and the CBPP3 and to the other holdings of Eurosystem central banks shall apply.
3. Covered bonds shall be denominated in euro, held and settled in the euro area.
4. Covered bonds issued by entities suspended from Eurosystem credit operations shall be excluded from purchases under the CBPP3 for the duration of their suspension.
5. For covered bonds which currently do not achieve the CQS3 rating in Cyprus and Greece, a minimum asset rating at the level of the maximum achievable covered bond rating defined by the respective ECAI for the jurisdiction shall be required 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 Greek or Cypriot governments (pursuant to Article 8(2) of Guideline ECB/2014/31 ⁽³⁾), and a 30 % issue share limit per international securities identification number, which would apply to the joint holdings of the CBPP1, CBPP2, CBPP3 and the other holdings of Eurosystem central banks, provided that they satisfy the following additional requirements in order to achieve risk equivalence:
 - (a) monthly reporting of the cover pool characteristics, including loan-level data, to the NCB where the issuer is domiciled, as well as programme structural features and issuer information; the reporting template shall be made available to the counterparties by the respective NCB;
 - (b) minimum committed over-collateralisation of 25 %; the provisions for calculating the committed over-collateralisation shall be made available to the counterparties by the respective NCB;
 - (c) currency hedges with counterparties rated BBB- or higher for non-euro denominated claims are included in the cover pool of the programme or, alternatively, that at least 95 % of the assets are denominated in euro; and
 - (d) the credit claims in the cover pool are against debtors located in the euro area.
6. Covered bonds retained by their issuer shall be eligible for purchases under the CBPP3, provided that they fulfil the eligibility criteria as specified above.

Article 3

Eligible counterparties

The following shall be eligible counterparties for the CBPP3, both for outright transactions and for securities lending transactions involving covered bonds held in the CBPP3 Eurosystem portfolios: (a) domestic counterparties participating in Eurosystem monetary policy operations as defined in Section 2.1 of Annex I to Guideline ECB/2011/14; and (b) any other counterparties that are used by Eurosystem central banks for the investment of their euro-denominated investment portfolios, including non-euro area counterparties active in covered bonds.

⁽¹⁾ Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme (OJ L 175, 4.7.2009, p. 18).

⁽²⁾ Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (OJ L 297, 16.11.2011, p. 70).

⁽³⁾ Guideline ECB/2014/31 of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (OJ L 240, 13.8.2014, p. 28).

*Article 4***Final provision**

This Decision shall enter into force on the day following its publication on the ECB's website.

Done at Frankfurt am Main, 15 October 2014.

The President of the ECB
Mario DRAGHI
