



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Fabio De Masi
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 15 November 2014

L/MD/14/531

Re: Your letters (QZ38 and QZ39)

Dear Mr De Masi,

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 30 October 2014.

The overall size of the asset-backed securities (ABS) market in the euro area is close to EUR 890 billion. However, the ABS purchase programme (ABSPP) will not target the whole market, but only that part of it complying with the eligibility criteria published by the ECB in the Technical Annex to the press release on the operational details of the ABSPP.¹ Throughout the ABS market, the announcement of the ABSPP by the ECB had the envisaged impact on prices. The size of the impact differed between Member States and sub-asset classes; it could mainly be observed immediately after the announcement in early September. More recently, ABS yield spreads have been relatively stable.

As for the purchase prices, it is the clear aim of the ECB to buy ABS at market prices. With regard to the purchases conducted under the ABSPP, the ECB has started publishing on its website weekly data showing the total ABS holdings under the ABSPP and the weekly change in these holdings, split into purchases and redemptions. The ECB will not publish information on individual ABS transactions.

¹ http://www.ecb.europa.eu/press/pr/date/2014/html/pr141002_1_Annex_1.pdf?c4144e9908c29df066a053246f81d1ff

In addition, regarding your question on the interaction of the ABSPP with the outcome of the comprehensive assessment, it should be noted that these matters are unrelated and that the need for recapitalisation emanating from the results of the comprehensive assessment will not be affected by the ABSPP.

Turning to the involvement of external service providers in the ABSPP, please note that BlackRock Solutions was selected in a competitive procurement procedure as a consultant to provide advice and support on the design and implementation of the ABSPP. Advice on covered bonds has never been part of this contract.

The ECB has hired an external adviser on ABS purchases because the readily available expertise within the Eurosystem mainly involves the analysis of ABS in the context of their use as collateral for the Eurosystem's lending facilities and is not so focused on analysing ABS for purchase transactions. As the ABS market is heterogeneous and the different ABS instruments can be complex, it was felt that the design of the ABSPP would benefit from hands-on expertise in the primary and secondary ABS markets.

Regarding the four external asset managers (EAMs) that will be involved in the ABSPP, the contracts between the ECB and the EAMs contain a number of provisions to prevent conflicts of interest. In particular, the EAMs must ensure an effective separation between the teams working for the ECB and staff involved in any other activities, including structuring and trading ABS or research and consultancy services. Each of the EAMs is required to maintain ABSPP-specific conflict of interest policies and to prevent market abuse and financial crime. In addition, audits related to the management of conflicts of interests must be made available to the ECB. The ECB is also permitted to contractually audit the EAMs' compliance with their respective ABSPP-specific policies. Finally, when proposing to the ECB the purchase of an ABS, the EAMs must disclose in advance, to the extent possible and not restricted by the relevant information barriers they are required to have in place, any exposure to the relevant ABS in their own portfolios, that of their corporate group or in the portfolios of their clients.

Yours sincerely,

[signed]

Mario Draghi