



EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Burkhard Balz

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 17 June 2015

L/MD/15/387

**Re: Your letter**

Honourable Member of the European Parliament, dear Mr Balz,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs.

The Eurosystem has a statutory requirement to ensure that credit operations it conducts are secured by adequate collateral.<sup>1</sup> In this respect, the Eurosystem Credit Assessment Framework (ECAF) is an important element in mitigating financial risks for the Eurosystem, and its definition is part of the operational independence of the Eurosystem in conducting monetary policy operations.

The procedures, rules and techniques defined in the ECAF are key to ensuring that the Eurosystem's requirement of high credit standards for all assets that are eligible for use as collateral in Eurosystem monetary policy operations is met. The legal provisions underlying the ECAF are specified in the ECB Guideline on the implementation of the Eurosystem monetary policy framework (recast) (ECB/2014/60).<sup>2</sup>

In the assessment of the credit quality of eligible assets, the Eurosystem takes into account credit assessment information from credit assessment systems belonging to one of the following four sources: external credit assessment institutions (ECAIs), rating tools (RTs), national central banks' in-house credit assessment systems and banks' internal ratings-based (IRB) systems.<sup>3</sup> Among the systems accepted as RTs, there are also some European credit rating agencies. Therefore, for the assessment of Eurosystem

<sup>1</sup> See Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank.

<sup>2</sup> See [https://www.ecb.europa.eu/ecb/legal/pdf/oj\\_jol\\_2015\\_091\\_r\\_0002\\_en\\_txt.pdf](https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2015_091_r_0002_en_txt.pdf). Additional information on the ECAF is available on the ECB's website at <http://www.ecb.europa.eu/mopo/assets/risk/ecaf/html/index.en.html>.

<sup>3</sup> See Articles 119 to 126 of Guideline ECB/2014/60.

**Address**

European Central Bank  
Sonnemannstrasse 20  
60314 Frankfurt am Main  
Germany

**Postal Address**

European Central Bank  
60640 Frankfurt am Main  
Germany

Tel. +49-69-1344-0  
Fax: +49-69-1344-7305  
Website: [www.ecb.europa.eu](http://www.ecb.europa.eu)

collateral, the Eurosystem does not even today rely exclusively on the four credit rating agencies mentioned in your letter.

Let me also stress that the ECAF is open to additional credit rating agencies if they request ECAF-acceptance and if they comply with the requirements for ECAF-acceptance of credit assessment systems. The ECAF acceptance criteria aim at ensuring that a new system is suitable for the specific purpose of the Eurosystem's monetary policy operations. This protects the Eurosystem against financial risks and creates a level playing field for the different systems that provide the Eurosystem with credit assessment information.

The acceptance processes include quality checks and take into account the respective regulatory situation. For example, the acceptance criteria for credit rating agencies as ECAs<sup>4</sup> include (a) that ECAs must be registered or certified by the European Securities and Markets Authority (ESMA) in accordance with Regulation (EC) No 1060/2009, and (b) that ECAs must fulfil operational criteria and provide relevant coverage so as to ensure the efficient implementation of the ECAF. In particular, the use of an ECA's credit quality assessment is subject to the availability to the Eurosystem of information on these assessments. In addition, information is requested for the comparison and the assignment (i.e. "mapping") of the credit assessments to the Eurosystem's credit quality steps and for the purposes of monitoring their performance. The Eurosystem's due diligence on ECAs thus builds on the supervisory work undertaken by ESMA, but goes in some dimensions beyond it.

Finally, let me stress that the ECAF and the due diligence on information provided by credit rating agencies have been enhanced in recent years, in line with the ECB's commitment to implementing the Financial Stability Board's principles for reducing reliance on external ratings.<sup>5</sup>

Yours sincerely,

[signed]

Mario Draghi

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<sup>4</sup> See Article 120 of Guideline ECB/2014/60.

<sup>5</sup> See, for example Financial Stability Board, "Principles for Reducing Reliance on CRA Ratings", October 2010 (accessible at [http://www.financialstabilityboard.org/publications/r\\_101027.pdf](http://www.financialstabilityboard.org/publications/r_101027.pdf)).

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