



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Fabio De Masi

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt, 29 August 2017

L/MD/17/346

Re: Your letter (QZ-068)

Honourable Member of the European Parliament, dear Mr De Masi,

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 13 July 2017.

The corporate sector purchase programme (CSPP) is part of the Eurosystem's expanded asset purchase programme (APP) and was introduced with the aim of strengthening the pass-through of the Eurosystem's asset purchases to financing conditions of the real economy.¹ The universe of CSPP-eligible bonds is deliberately broad and its composition is primarily guided by monetary policy and risk management considerations. In pursuing its objective of maintaining price stability, the ECB is mandated to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. Consequently, the ECB aims for a market-neutral implementation of the APP and therefore CSPP purchases are conducted according to a benchmark that proportionally reflects the nominal value of eligible bonds in the CSPP-eligible universe.

The size of the Eurosystem's holdings of bonds issued by an eligible corporate is oriented towards the issuer's share in the internally constructed benchmark based on the eligible universe. Deviations from the benchmark share are allowed to the extent determined by the limits that apply to each issuer. As liquidity conditions vary across individual issuers and bonds, these limits include some leeway in order to ensure necessary flexibility in the build-up of the portfolio. The CSPP is conducted on a bilateral basis with the

¹ See the box entitled "The ECB's corporate sector purchase programme: its implementation and impact", *Economic Bulletin*, Issue 4, ECB, 2017, available at https://www.ecb.europa.eu/pub/pdf/other/ebbox201704_02.en.pdf

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

national central banks' eligible counterparties, which include counterparties they trade with in the context of their own investment activities in euro-denominated securities. The Eurosystem acts like any other regular market participant vis-à-vis the bond sellers. This framework has also been applied to the specific issuer you discuss in your letter, Nestlé Finance Intl Ltd. As reported on the ECB's website, as of 29 July 2017 six bonds issued by Nestlé have been bought under the CSPP² and the share of CSPP holdings in Nestlé bonds is broadly in line with the benchmark. As I already had the opportunity to discuss in a previous letter of reply to you and your honourable colleagues³, while the Eurosystem publishes the complete list of securities held under the CSPP, it does not publish the amount of any specific securities it holds or aggregated amounts per issuer either.

Issuers of bonds bought under the CSPP are free to make their own decisions on their optimal capital structure and allocation of resources, including through share buy-backs, by weighing the cost of debt and cost of equity and comparing those to their profit potential.⁴ Insofar as this results in a decline in the cost of equity financing, this can contribute to the profitability of new investment and be supportive of the economy. The ECB's adherence to the principle of an open market economy with free competition means that it has no say on such decisions.

Let me conclude by briefly mentioning the numerous positive effects of the CSPP in supporting the recovery. Euro area investment grade non-financial corporate bond spreads have on average contracted by more than 50 basis points since the announcement of the CSPP, reaching their lowest average levels on record. Moreover, the CSPP has also benefited companies that do not rely on capital markets for their financing, such as small and medium-sized enterprises (SMEs), because favourable bond market conditions have resulted in positive spillover effects that have supported bank lending. For example, when large corporates increasingly finance themselves through bond issuances (rather than bank loans), this releases capacity in the balance sheets of banks for potential lending to SMEs. The results of the latest Survey on the Access to Finance of Enterprises in the euro area (i.e. for the period October 2016 to March 2017) confirm that SMEs continued to benefit from the increased availability of bank loans. The CSPP thus has materially contributed to ensuring the very favourable financing conditions that are necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term.

Yours sincerely,

[signed]

Mario Draghi

² See the list of securities held under the CSPP, available at <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>

³ See the letter dated 23 June 2017 to several Members of the European Parliament, available at https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter170626_several_meps.en.pdf

⁴ Of course, an issuer would lose CSPP eligibility if buy-backs were to imply a loss of the investment grade rating of the issuer, which is a prerequisite for eligibility to the CSPP.

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