



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Ms Paloma López Bermejo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 17 October 2016

L/MD/16/444

Re: Your letter (QZ-083)

Honourable Member of the European Parliament, dear Ms López Bermejo,

Thank you for your letter regarding the ECB's corporate sector purchase programme (CSPP), 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 September 2016.

Private placements are a standard market practice allowing the corporate sector to refinance itself by issuing securities. In line with the eligibility criteria for different programmes under the ECB's asset purchase programme (APP)¹, bonds issued in private placements are eligible for some programmes, namely the CSPP and the third covered bond purchase programme (CBPP3). The criteria and conditions for participation in primary market issuance apply to all forms of primary market issuance, including private placements. I would like to emphasise that the ECB does not target a specific distribution of its purchases between public issuance and private placements.

The CSPP eligibility conditions have been made deliberately inclusive with a view to maintaining a level playing field. For instance, smaller firms are more likely to engage in smaller issuances with shorter maturities, all other things being equal. To account for this, the CSPP does not set a minimum size for an issuance, and bonds with maturities as short as six months are eligible. Beyond this, the CSPP can also benefit enterprises which obtain funding from banks rather than through securities issuance; buoyant bond

¹ The eligibility criteria and purchase details are published on the ECB website at <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>

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market conditions as a result of the CSPP make it attractive for large companies to obtain more funding from bond markets, incentivising banks to use the increased space on their balance sheets to provide loans to small and medium-sized enterprises (SMEs).

The CSPP purchases have been well diversified across issuers, as can be seen from the list of bond holdings which is updated on a weekly basis by the purchasing national central banks. The wide diversification is ensured by the benchmark, which is constructed using the market capitalisation weights for each of the different issuer groups with CSPP-eligible bonds outstanding.

The APP is designed to have as broad an effect as possible on the financing conditions of firms of all sizes, thereby maintaining a level playing field. In keeping with this, the current package of monetary policy measures, which the ECB has been implementing since June 2014, and which also comprises reductions in the key ECB interest rates and targeted longer-term refinancing operations, has led to a broad-based easing of financing conditions. Since the beginning of June 2014, average bank lending rates for euro area non-financial corporations have fallen by more than 100 basis points. The available evidence suggests that bank lending conditions for SMEs have improved even more, as average bank lending rates on small loans (i.e. those below €250,000) to non-financial corporations have declined by 164 basis points over the same period. Furthermore, the latest survey on the access to finance of enterprises reported a further improvement in the availability of external sources of finance for SMEs and an increased willingness on the part of banks to provide credit at lower interest rates.

Please note that the ECB does not comment on individual transactions conducted under the APP. However, it should be kept in mind that no more than 70% of eligible bonds in a given issue can be bought under the CSPP, regardless of the method of market sale.

Finally, I would like to assure you that, when conducting operations under the APP, the Eurosystem fully respects the prohibition of monetary financing in Article 123(1) of the Treaty² in all contexts and all modes of purchase, including private placements. Regarding the CSPP, monetary financing concerns do not arise where the issuers of debt are private companies which are not public undertakings within the meaning of Article 123(1), as the article only prohibits direct purchases of debt instruments from the public sector. Nonetheless, both Article 1 of Decision ECB/2015/10³ and Decision ECB/2016/16⁴ expressly provide that purchases of public undertakings' debt may only take place in the secondary markets. Primary market purchases by way of private placement are equally subject to these restrictions and safeguards.

Yours sincerely,
[signed]

Mario Draghi

² Consolidated version of the Treaty on the Functioning of the European Union:

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT>

³ https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2015_121_r_0007_en_txt.pdf

⁴ https://www.ecb.europa.eu/ecb/legal/pdf/celex_32016d0016_en_txt.pdf

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