Decision (EU) 2020/188 of the European Central Bank of 3 February 2020 on a secondary markets public sector asset purchase programme (ECB/2020/9) (recast)

DECISION (EU) 2020/188 OF THE EUROPEAN CENTRAL BANK

of 3 February 2020

on a secondary markets public sector asset purchase programme (ECB/2020/9)

(recast)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular 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) Decision (EU) 2015/774 of the European Central Bank (ECB/2015/10)[(1)] has been substantially amended several times[(2)]. Since further amendments are to be made, that Decision should be recast in the interests of legal clarity.

(2) Decision (EU) 2015/774 (ECB/2015/10) established a secondary markets public sector asset purchase programme (PSPP). Alongside the third covered bond purchase programme, the asset-backed securities purchase programme and the corporate sector purchase programme, the PSPP is part of the expanded asset purchase programme (APP) of the European Central Bank (ECB). The APP aims to enhance the transmission of monetary policy, facilitate the provision of credit to the euro area economy, ease borrowing conditions for households and firms, and support the sustained convergence of inflation rates to levels below, but close to, 2 % over the medium term, consistent with the ECB's primary objective of maintaining price stability.

(3) On 13 December 2018, the Governing Council decided that certain parameters of the APP should be adjusted as from 1 January 2019 in order to achieve the APP's objectives. More specifically, the Governing Council decided to halt net asset purchases under the APP on 31 December 2018. The Governing Council confirmed its intention that principal payments from maturing securities purchased under the APP should continue to be reinvested in full for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

(4) The Governing Council also decided that, the allocation of cumulative net purchases of marketable debt securities issued by eligible central, regional or local governments and recognised agencies under the PSPP across eligible jurisdictions should continue to be

Changes to legislation: *There are currently no known outstanding effects for the Decision (EU) 2020/188 of the European Central Bank. (See end of Document for details)*

guided, on a stock basis, by the respective national central banks' subscription to the ECB's capital as referred to in Article 29 of the Statute of the ESCB.

(5) On 12 September 2019, the Governing Council decided to restart net purchases under the APP as from 1 November 2019 and expects them to be carried out for as long as necessary to reinforce the accommodative impact of policy rates and to end shortly before the Governing Council starts raising the key ECB interest rates. The Governing Council also decided to continue reinvesting in full the principal payments from maturing securities purchased under the APP for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. In light of a protracted slowdown in the euro area economy, persistent downside risks to the growth outlook and an inflation outlook that continued to fall short of its medium-term inflation aim, the Governing Council concluded that a comprehensive policy response was warranted to support the return of inflation to a sustained convergence path towards the Governing Council's medium-term inflation aim. Resuming net asset purchases is a proportionate measure as it has a greater impact on longer-term rates than interest rate policy and eases the relevant funding costs of firms and households.

(6) The PSPP, as part of the asset purchase programmes constituting the APP, is a proportionate measure for mitigating the risks to the outlook on price developments, as these programmes further ease monetary and financial conditions, including those relevant to the borrowing conditions of euro area non-financial corporations and households, thereby supporting aggregate consumption and investment spending in the euro area and ultimately contributing to a return of inflation rates to levels below, but close to, 2 % over the medium term. In an environment where key ECB interest rates are close to their lower bound, it is necessary to include in the Eurosystem's monetary policy measures asset purchase programmes as instruments that feature a high transmission potential to the real economy.

(7) The PSPP contains a number of safeguards to ensure that the envisaged purchases are proportionate to its aims, and that the related financial risks have been duly taken into account in its design and will be contained through risk management. To allow for the smooth operation of markets in eligible marketable debt securities, and to avoid obstructing orderly debt restructurings, thresholds will apply to the purchases of those securities by the Eurosystem central banks.

(8) The PSPP complies fully with the obligations of the Eurosystem central banks under the Treaties, including the monetary financing prohibition, and does not impair the operation of the Eurosystem in accordance with the principle of an open market economy with free competition.

(9) With a view to ensuring the effectiveness of the PSPP, the Eurosystem hereby clarifies that it accepts the same (pari passu) treatment as private investors as regards the marketable debt securities that the Eurosystem may purchase under the PSPP, in accordance with the terms of such instruments.

(10) The PSPP is implemented in a decentralised manner, giving due regard to market price formation and market functioning considerations, and coordinated by the ECB, thereby safeguarding the singleness of the Eurosystem's monetary policy.

(11) On 26 March 2019, the Governing Council decided to further harmonise the concepts of agency currently used in the Eurosystem monetary policy framework and to align the criteria used to define recognised agencies in the collateral framework and agencies eligible for the PSPP,

HAS ADOPTED THIS DECISION:

Article 1

Establishment and scope of PSPP

The Eurosystem hereby establishes the PSPP under which the Eurosystem central banks shall purchase eligible marketable debt securities, as defined in Article 3, on the secondary markets, from eligible counterparties, as defined in Article 7, under specific conditions.

Article 2

Definitions

For the purposes of this Decision, the following definitions shall apply:

(1) ‘Eurosystem central bank’ means the ECB and the national central banks of the Member States whose currency is the euro (hereinafter the 'NCBs');

(2) ‘recognised agency’ means an entity that the Eurosystem has classified as such;

(3) ‘international organisation’ means an entity within the meaning of Article 118 of Regulation (EU) No 575/2013 of the European Parliament and of the Council[3] and that the Eurosystem has classified as such for the purpose of the PSPP;

(4) ‘multilateral development bank’ means an entity within the meaning of Article 117(2) of Regulation (EU) No 575/2013 and that the Eurosystem has classified as such for the purpose of the PSPP;

(5) ‘positive outcome of a review’ means the later of the following two decisions: the decision by the Board of Directors of the European Stability Mechanism and, in case the International Monetary Fund co-finances the financial assistance programme, the Executive Board of the International Monetary Fund to approve the next disbursement under that programme, on the understanding that both decisions are necessary for the resumption of purchases under the PSPP;

(6) ‘stock’ means the sum of the book value, at the time of purchase, of all purchases made in marketable debt securities, taking into account redemptions of maturing principal that have occurred;

(7) ‘net purchases’ means purchases of eligible marketable debt securities in a given month, net of redemption amounts from maturing securities purchased under the APP within that month;

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(8) 'cumulative net purchases' means the sum of net purchases since the start of the respective purchase programme.

Lists of the entities referred to in points (2) to (4) are published on the ECB's website.

Article 3

Eligibility criteria for marketable debt securities

1 Subject to the requirements laid down in this Article, euro-denominated marketable debt securities issued by central, regional or local governments of a Member State whose currency is the euro, recognised agencies located in the euro area, international organisations located in the euro area and multilateral development banks located in the euro area shall be eligible for purchases by the Eurosystem central banks under the PSPP.

2 In order to be eligible for purchase under the PSPP, marketable debt securities shall comply with the eligibility criteria for marketable assets for Eurosystem credit operations pursuant to Part Four of Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60)[(4)], subject to the following requirements:

a the issuer or guarantor of the marketable debt securities shall have a credit quality assessment of at least Credit Quality Step 3 in the Eurosystem's harmonised rating scale expressed in the form of at least one public credit rating provided by an external credit assessment institution (ECAI) accepted within the Eurosystem credit assessment framework;

b if multiple ECAI issuer ratings or ECAI guarantor ratings are available, the first-best rule shall apply, i.e. the best available ECAI issuer rating or ECAI guarantor rating shall apply. If the fulfilment of the credit quality requirements is established based on an ECAI guarantor rating, the guarantee shall fulfil the features of an acceptable guarantee as laid down in Article 87 and Articles 113 to 115 of Guideline (EU) 2015/510 (ECB/2014/60);

c in the absence of an ECAI issuer rating and an ECAI guarantor rating, a marketable debt security shall have at least one ECAI issue rating of at least Credit Quality Step 3 on the Eurosystem's harmonised rating scale;

d if the credit assessment provided by an accepted ECAI for the issuer, guarantor or issue does not comply with at least Credit Quality Step 3 in the Eurosystem's harmonised rating scale, marketable debt securities shall be eligible only if they are issued or fully guaranteed by the central governments of euro area Member States under a financial assistance programme and in respect of which the application of the Eurosystem's credit quality threshold is suspended by the Governing Council pursuant to Article 8 of Guideline ECB/2014/31[(5)];

e in the event of a review of an ongoing financial assistance programme, eligibility for PSPP purchases shall be suspended and shall resume only in the event of a positive outcome of the review.

3 In order to be eligible for purchase under the PSPP, debt securities, within the meaning of paragraphs 1 to 2, shall have a minimum remaining maturity of one year and a maximum remaining maturity of 30 years at the time of their purchase by the relevant Eurosystem central bank. In order to facilitate smooth implementation, marketable debt instruments with a remaining maturity of 30 years and 364 days shall be eligible under the PSPP. National central banks may also carry out substitute purchases of marketable debt securities issued by international organisations and multilateral development banks if the envisaged amounts to be

purchased in marketable debt securities issued by central, regional or local governments and recognised agencies cannot be attained.

4 Purchases of nominal marketable debt instruments at a negative yield to maturity (or yield to worst) equal to or above the deposit facility rate are permitted. Purchases of nominal marketable debt instruments at a negative yield to maturity (or yield to worst) below the deposit facility rate are permitted to the extent necessary.

Article 4

Limitations on the execution of purchases

1 To permit the formation of a market price for eligible securities, no purchases shall be permitted in a newly issued or tapped security and the marketable debt instruments with a remaining maturity that are close in time, before and after, to the maturity of the marketable debt instruments to be issued, over a period to be determined by the Governing Council ('blackout period'). For syndications, the blackout period in question is to be respected on a best effort basis as soon as public information regarding the terms of the issuance becomes available.

2 For debt securities issued or fully guaranteed by the central governments of euro area Member States under a financial assistance programme, the period of purchases under the PSPP after a positive outcome of each programme review shall, as a rule, be limited to two months, unless there are exceptional circumstances justifying a suspension of purchases before or a continuation of purchases after such period and until the start of the next review.

Article 5

Purchase limits

1 Subject to Article 3, an issue share limit per international securities identification number (ISIN) shall apply under the PSPP to marketable debt securities fulfilling the criteria laid down in Article 3, after consolidating holdings in all of the portfolios of the Eurosystem central banks. The issue share limit shall be as follows:

a 50 % per ISIN for eligible marketable debt securities issued by eligible international organisations and multilateral development banks;

b 33 % per ISIN for other eligible marketable debt securities, with the exception of 25 % per ISIN for such eligible marketable debt securities containing a collective action clause (CAC) that differs from the euro area model CAC elaborated by the Economic and Financial Committee and implemented by the Member States in accordance with Article 12(3) of the Treaty establishing the European Stability Mechanism, but will be increased to 33 %, subject to verification on a case-by-case basis that a holding of 33 % per ISIN of those securities would not lead the Eurosystem central banks to reach blocking minority holdings in orderly debt restructurings.

2 All marketable debt securities eligible for purchase under the PSPP and which have the remaining maturities specified in Article 3 shall be subject to an aggregate limit, after consolidating holdings in all of the portfolios of the Eurosystem central banks, of:

a 50 % of the outstanding securities of an issuer which is an eligible international organisation or a multilateral development bank; or

b 33 % of the outstanding securities of an issuer other than an eligible international organisation or a multilateral development bank.