EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Auke Zijlstra
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 18 February 2014

L/MD/14/104

Re: Your letter

Dear Mr Zijlstra,

Thank you for your letter, which was passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, along with a cover letter dated 28 March 2013. Please accept my sincere apologies for the delay in replying.

Central banks need to ensure that their financial buffers remain commensurate with the level of risk taken and, hence, that they maintain an appropriate level of financial strength at all times. In order to achieve this – especially when confronted with increased exposure to risk – they may choose to build up provisions or reserves to cover the risks associated with monetary policy operations, and other financial risks. The ECB[1] and all Eurosystem national central banks (NCBs) therefore review the adequacy of their financial buffers against risk on an annual basis and make adjustments accordingly, as reflected in their annual accounts.

The ECB and the Eurosystem have, from the start of the crisis, monitored the developments in financial risk both in absolute terms and relative to the Eurosystem's loss absorption capacity. The ECB and the NCBs

[1] As at 31 December 2011, the ECB provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €6,363,107,289. Taking into account the results of an annual assessment of the adequacy of the provision against risk, the Governing Council decided to transfer, as at 31 December 2012, an amount of €1,166,175,000 to the provision, increasing the size of the provision to €7,529,282,289.

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operate within a framework which promotes and applies sound risk management practices, but which also acknowledges their particularities as central banks. Eurosystem credit operations are conducted with financially sound counterparties and against adequate collateral. As regards other policy operations, such as outright purchases conducted in the context of the Covered Bond Purchase Programmes (I and II) and the Securities Markets Programme, the ECB maintains control over the risk exposure by defining the investment framework, asset allocation targets, purchase amounts and other transaction details.

As regards the evaluation of risk, the ECB regularly assesses the risk profile of its balance sheet exposure. Such assessments are considered by the decision-making bodies of the ECB in the context of policy decisions, and serve as the basis for assessing the adequacy of the financial buffers of the ECB and of the Eurosystem.

As part of the Troika, the ECB provides advice on the design and monitoring of economic adjustment programmes and, as such, acts in liaison with the European Commission. This role has been assigned to the ECB inter alia by EU secondary law[2] and by the ESM Treaty and is fully consistent with the ECB's mandate and with the principle of independence as set out in the Treaty on the Functioning of the European Union. The Court of Justice of the EU in its judgement in the Pringle case confirmed that the tasks assigned to the ECB under the ESM treaty were in line with its Treaty obligations.

Finally, please note that the Governing Council of the ECB decided on the modalities for undertaking outright monetary transactions (OMTs) in secondary markets for sovereign bonds in the euro area in order to safeguard the monetary policy transmission mechanism and the singleness of monetary policy in the euro area. The Governing Council of the ECB will decide independently in each individual case, looking exclusively at the necessity of OMTs from a monetary policy perspective. OMTs are therefore fully consistent with the mandate of the ECB as laid down by the Treaty.

Yours sincerely,

[signed]

Mario Draghi

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[2] See Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism and Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to financial stability.