EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI

President

Mr Sven Giegold
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 8 January 2013

L/MD/13/9

Re: Your letter

Dear Mr Giegold,

Thank you for your letter passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, and accompanied by a cover letter dated 19 November 2012.

In response to your question about our rating criteria, please note that these are set out in Chapter 6 of the "General Documentation on Eurosystem Monetary Policy Instruments and Procedures", which is Annex 1 to Guideline ECB/2011/14 of 20 September 2011. The criteria stipulate that priority is given to an issue (asset) rating over an issuer rating, and that a first-best rating is applied within each category of ratings. Before November 2012, DBRS did not give specific short-term issue ratings to sovereign issuers. The reporting entity within the Eurosystem that assessed the eligibility of Spanish sovereign debt (Treasury bills) incorrectly applied the long-term issuer rating. As I mentioned in the press conference on 8 November 2012, the Eurosystem is currently assessing and implementing procedures to prevent this from occurring in the future.

Regarding short-term Treasury bills from Member States, DBRS is currently rating these assets.[1]

[1] Information can be found on DBRS's website, www.dbrs.com, and via relevant commercial data providers.

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With reference to your question about collateral requirements in different euro area Member States, please note that, as of 8 December 2011, national central banks (NCBs) have been allowed, as a temporary solution, to accept additional performing credit claims (namely bank loans) as collateral, provided that these satisfy specific eligibility criteria. The responsibility for accepting such credit claims is borne by the national central bank authorising their use.

Regarding the Treasury bills of euro area Member States, our collateral rules have not been amended recently. Nevertheless, I would like to highlight the fact that we have amended other collateral eligibility rules very recently, as was announced in a press release on 28 November 2012. These amendments will come into effect as of 3 January 2013.

With respect to your question concerning banks providing more collateral than needed, please note that, during the third quarter of 2012, Eurosystem counterparties pledged collateral worth €2,520 billion, after valuation and haircuts, while the average credit outstanding for the same period amounted to €1,216 billion. Thus, the collateral pool is roughly double the liquidity provided.[2]

Regarding your question on margin calls, our rules state that, if the value after haircuts of the underlying assets, measured on a regular basis, falls below a certain level relative to the amount of credit provided, the NCB will require the counterparty to supply additional assets or cash (i.e. it will make a margin call). The Spanish banking system is, however, over-collateralised, implying that the Spanish banks have, on aggregate, posted more assets as collateral than is necessary to receive Eurosystem credit. The rating incident of Spanish Treasury bills mentioned above had no impact on our lending given that, even if the proper haircut had been applied, lending was over-collateralised.

Concerning your question on providing country level data on collateral, as of the second quarter of 2012 the ECB has published aggregated Eurosystem collateral data on asset levels every quarter (please see footnote 2 for a reference). For confidentiality reasons, the Eurosystem does not publish collateral data at country level, as some jurisdictions have very few counterparties.

In response to your question about disclosing additional guidelines regarding collateral, the above-mentioned "General Documentation" is publicly available[3]. The Eurosystem continuously assesses how it can be more transparent and improve the quality of information given to the public, while respecting confidentiality and being consistent with the demands of monetary policy.

Yours sincerely,

[signed]

Mario Draghi

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[2] Please also find published collateral data on the ECB's website: http://www.ecb.europa.eu/paym/pdf/collateral/collateral_data.pdf

[3] Available on the ECB's website: http://www.ecb.europa.eu/ecb/legal/pdf/l_33120111214en000100951.pdf and http://www.ecb.europa.eu/ecb/legal/pdf/en_ecb_2012_25_f_sign.pdf