EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Nicola Caputo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 3 November 2014

L/MD/14/455

Re: Your letters Z12-Z16

Honourable Member of the European Parliament, dear Mr Caputo,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 11 September 2014. Given the close links between the topics you have mentioned, allow me to respond in one document.

Let me first address your questions on the design and the impact of the measures taken by the Governing Council of the ECB in June and September 2014 with a view to enhancing the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. The targeted longer-term refinancing operations (TLTROs), the asset-backed securities purchase programme (ABSPP), and the third covered bonds purchase programme (CBPP3) constitute credit-easing policies which are aimed at facilitating the flow of credit and reducing its cost in impaired markets. These measures work via three channels: a direct pass-through channel, as the reduction of lenders' funding costs in certain market segments is passed on to their borrowers; a portfolio rebalancing channel, as the expansion of liquidity promotes a diversification of investment patterns in the investor community, thereby easing financing conditions more generally; and a signalling channel, as the measures underpin our forward guidance and our determination to accomplish an expansionary stance over an extended horizon, in keeping with our price stability mandate. The impact of the TLTROs depends on the take-up by banks, which is in turn determined by banks' lending activity and the availability and pricing of alternative sources of funding. In the first operation conducted on 18 September 2014, the ECB allotted €82.6 billion, while a second TLTRO will be conducted in December. By design, the September and December operations should be assessed together. Overall, we expect the TLTROs to act as a powerful tool to strengthen the transmission of monetary policy and facilitate new credit flows to the real economy, given the predominantly bank-based financing structure of the euro area economy.

Purchases of asset-backed securities (ABSs) are meant to complement the TLTROs in activating the direct pass-through effects mentioned above, because the ABS market remains impaired and the link between ABS spreads and the lending rates on the underlying credit has been found to be strong. Covered bond market interventions will further complement ABS purchases by reinforcing the signalling and portfolio rebalancing effects. The ABSPP and the CBPP3 will remain in place for at least two years.

To serve the objective of the TLTRO programme, a number of specific criteria have been established, as laid down in Decision ECB/2014/34[1], in particular Articles 4 to 7. First, the additional borrowing allowances available to credit institutions as of the beginning of 2015 will be determined by the extent to which they have expanded their eligible net lending.[2] Second, in June 2016, credit institutions will be required to prove that they have lent at least as much as specific individual benchmarks, as established for the first phase of the programme. Should they not meet these benchmarks, they will be required to repay the funds borrowed two years ahead of the original maturity date of the programme.

These features of the TLTROs are targeted specifically at supporting lending to the real economy. In order to assess their effectiveness, the lending behaviour of participating credit institutions will be closely monitored by the Eurosystem. To this end, participants will be required to report regularly on their loan portfolios until they have repaid the borrowed TLTRO funds in full.

As regards the involvement of Blackrock Solutions (BRS) to advise the ECB on the development of the ABS purchase programme, please be informed that the contract has been tendered out in the form of a competitive negotiated procedure without publication of a notice. This procedure is provided for in the ECB’s Rules on Procurement (Article 6.1), and is in line with the European Public Procurement Directive. The ECB invited a number of appropriate consulting firms to take part in the tender. The firms were identified through market research, respecting the principles of fair competition and best value for money, all being multinational firms with demonstrated experience in the ABS market. The outcome of the competitive procurement procedure was the selection of BRS as it submitted the economically most advantageous offer, upon evaluation on the basis of predetermined award criteria (50% in terms of price and 50% in terms of the quality of the offer).

The content of the contract is, as is common, confidential. It is a standard consultancy contract with standard conditions and contains a number of provisions to avoid conflicts of interest. The ECB has required BRS to

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1 Decision of the European Central Bank of 29 July 2014 on measures relating to targeted longer-term refinancing operations (ECB/2014/34), OJ L 258, 29.08.2014, pp. 11–29.

2 Eligible net lending is determined on the basis of the provision of loans to non-financial corporations and households (excluding lending for house purchase), as further detailed in Annex II to Decision ECB/2014/34.

ensure, inter alia, an effective separation between the project team working for the ECB and staff involved in any other ABS-related activities.

Turning to your question on the accountability framework for the Single Supervisory Mechanism (SSM), the ECB considers that accountability is essential for the transparency, legitimacy and independence of supervisory decisions, while also contributing to ensuring efficient and effective banking supervision. The ECB accountability framework for SSM-related tasks is set out in the SSM Regulation[3]: in relation to these tasks, the ECB is accountable to the European Parliament and the EU Council and/or, as appropriate, the Eurogroup in the presence of representatives from non-euro participating Member States. To this end, the SSM Regulation provides for various channels of accountability, while reporting takes place not only vis-à-vis these two institutions, but also to the European Commission and the national parliaments. The SSM Regulation also establishes clear procedures for the appointment of the Chair and Vice-Chair of the ECB Supervisory Board. Moreover, the European Parliament and the ECB have signed an Interinstitutional Agreement on the practical implementation of the SSM accountability framework.[4] The Council of the EU and the ECB concluded a Memorandum of Understanding on the cooperation on procedures related to the SSM.[5]

Further details on the accountability framework and its implementation are provided in the accountability section of the SSM Quarterly Reports[6] and on the ECB's website[7].

As regards your questions on the Comprehensive Assessment (CA), let me highlight that it aimed at substantially increasing transparency about the underlying quality of banks' assets in a consistent manner across countries, and was designed to be rigorous and thorough. By identifying and requiring necessary follow-up action, the exercise will also contribute to banks' balance sheet repair and confidence building. The ECB believes that in response to the exercise, investors' and savers' confidence in banks will be further restored and thereby enhance their willingness to provide capital and funding to European banks. This should allow banks to provide new financing to the real economy.

Finally, let me address your questions on economic policy.

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[3] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

[4] 2013/694/EU: Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism (available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013Q1130(01)).

[5] Memorandum of Understanding between the Council of the European Union and the European Central Bank on the cooperation on procedures related to the Single Supervisory Mechanism (SSM) (available at https://www.ecb.europa.eu/ssm/pdf/memorandum-ssm-eucouncil-ecb.pdf).

[6] Available at http://www.ecb.europa.eu/pub/pub/ecb/html/index.en.html?skey=SSM Quarterly Report

[7] http://www.ecb.europa.eu/ssm/accountability/html/index.en.html

Restoring growth requires decisive policy action in three areas: structural reforms, fiscal policy and monetary policy. I have outlined and explained above the rationale behind the latest monetary policy measures taken by the ECB. Structural reforms crucially complement the ECB's accommodative monetary policy stance and further empower the effective transmission of monetary policy. The crisis has painfully revealed the economic hardship citizens have to face when structural rigidities are not resolved in a timely and forceful manner. Removing these rigidities is not merely in a country's own interest, but also in the interest of Monetary Union as a whole. Thus, there is a strong case for establishing stronger governance on structural reforms at the EU level. Together with efforts to ensure a swifter implementation of country-specific recommendations, this will contribute to strengthening the euro area's growth potential.

Fiscal policy should fully respect the rules and recommendations issued under the Stability and Growth Pact, which has been and should remain an anchor of confidence. Preserving its credibility is crucial for the functioning of Economic and Monetary Union (EMU). The existing flexibility within the preventive arm of the Stability and Growth Pact allows account to be taken of the budgetary costs of major structural reforms which have already been adopted. Fiscal policies can provide further support to growth: cutting non-productive expenditure can create space for reducing taxes and increasing public investment.

Yours sincerely,

[signed]

Mario Draghi