Corporate sector purchase programme (CSPP) – Questions & Answers

Last update: 3 March 2021

Eligibility criteria

Q1.1 What are the minimum and maximum maturities of eligible debt instruments for purchase under the CSPP?

In order to qualify for purchase under the CSPP, debt instruments must have either (i) an initial maturity of 365/366 days or less and a minimum remaining maturity of 28 days at the time they are bought, or (ii) an initial maturity of 367 days or more, a minimum remaining maturity of six months and a maximum remaining maturity of less than 31 years (i.e. purchases of securities with a remaining maturity of 30 years and 364 days are possible) at the time they are bought. The upper limit is in line with that applied to the public sector purchase programme (PSPP). The lower limit ensures that assets issued by small and medium-sized corporations are also part of the universe of eligible debt instruments.

Q1.2 What is the minimum issuance volume of debt instruments eligible for purchase?

There is no minimum issuance volume for corporate bonds eligible for purchase under the CSPP. This ensures that corporate bonds with small issuance volumes (often ones issued by small firms) can also be purchased. To be eligible for purchase, a commercial paper security must have a minimum outstanding issuance amount of €10 million.

Q1.3 Can the Eurosystem buy debt instruments with negative yields? Is there any minimum yield for the purchases?

Purchases of eligible debt instruments with a negative yield to maturity are permissible. Purchases below the deposit facility rate are also permissible in all asset purchase programmes (APP) to the extent necessary. The Governing Council decided in January 2017 that purchases of assets with yields below the deposit facility rate could take place under the PSPP to the extent necessary. On 12 September 2019 the Governing Council decided to extend this possibility to the private sector parts of the APP, specifically the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP) and the CSPP.

Q1.4 How do you treat a debt instrument if it has two or more ratings? Which rating applies?

In accordance with the practice followed under its collateral framework, the Eurosystem considers only credit assessments provided for the issue, issuer or guarantor by credit rating agencies (i.e. external credit assessment institutions (ECAIs)) which are eligible under the Eurosystem credit assessment framework (ECAF).

The use of these ratings is outlined in Articles 83 and 84 of Guideline ECB/2014/60. Article 84 specifies that an issue rating has priority over issuer or guarantor ratings. In general, the first-best rating must have a minimum credit assessment of credit quality step 3 (currently equivalent to an ECAI rating of BBB-/Baa3 /BBBL. The equivalent short-term ratings are A-2/P-2/F3/R2-L) under the ECAF. Guarantor ratings are considered only in cases where the guarantee complies with the requirements set out in Part Four of

Guideline ECB/2014/60.

Q1.5 Will the Eurosystem sell its holdings of debt instruments if they lose eligibility?

The Eurosystem may choose to, but is not required to, sell its holdings in the event of a loss of eligibility, e.g. a downgrade below the credit quality rating requirement.

Q1.6 In what way, if any, are car manufacturing companies eligible for CSPP purchases, given that many of them have "internal banks"?

As long as no *parent* of the issuer of the debt instrument is a bank, the issuer fulfils the non-bank criterion. If the issuer has a subsidiary that is a bank, the issuer will *not* be excluded under this criterion. Consequently, the Eurosystem can buy such an issuer's debt instruments if all other eligibility criteria are met.

Q1.7 The press release on the CSPP refers to "bonds issued by non-bank corporations". What exactly does this mean? Are debt instruments issued by insurers eligible for purchase?

For a debt instrument to be eligible for purchase under the CSPP, the issuer should not be a credit institution or have any parent undertaking (as defined in Article 4(15) of the Capital Requirements Regulation) which is a credit institution (as defined in Article 2(14) of Guideline ECB/2014/60). Insurers that fulfil these criteria are eligible issuers.

Q1.8 The CSPP press release refers to "bonds issued by non-bank corporations established in the euro area". What criteria does the European Central Bank use to decide whether an issuer is established in the euro area? Can debt instruments issued by non-euro area companies that have issued debt in the euro area also be purchased?

Debt instruments issued by issuers incorporated in the euro area are eligible for CSPP purchases.

In practical terms, this means that issuers must be euro area residents. The location of incorporation of the issuer's ultimate parent is not taken into consideration in this eligibility criterion. Thus, corporate debt instruments issued by corporations incorporated in the euro area but whose ultimate parent is not established in the euro area are eligible for purchase under the CSPP, provided that they fulfil all other eligibility criteria.

Q1.9 Can you provide some more details on what the Eurosystem considers to be a "bank" for the purposes of the CSPP, and hence an ineligible issuer?

For a debt instrument to be eligible for purchase under the CSPP, the issuer should not be a credit institution or have any parent undertaking (as defined in Article 4(1)(15) of the Capital Requirements Regulation which is a credit institution (as defined in Article 2(15) of Guideline ECB/2014/60).

In addition, the issuer of the debt instruments:

1. may not have a parent company which is subject to banking supervision outside the euro area;

2. may not be a supervised entity as defined in Article 2(2) of Regulation (EU) No 468/2014 of the

European Central Bank (ECB/2014/17) or a member of a supervised group as defined in Article 2(21) of Regulation (EU) No 468/2014 (ECB/2014/17), in each case as contained in the list published by the ECB on its website in accordance with Article 49(1) of Regulation (EU) No 468/2014 (ECB/2014/17), and may not be a subsidiary, as defined in Article 4(1)(16) of Regulation (EU) No 575/2013, of any of those supervised entities or supervised groups;

3. may not be an investment firm within the meaning of Article 4(1)(1) of Directive 2014/65/EU of the European Parliament and of the Council.

In practical terms, this means that debt instruments issued by an entity which is supervised under the European banking supervision, as well as its subsidiaries, are not eligible for purchase under the CSPP. At the same time, in order to ensure a level playing field between euro area and foreign issuers, issuers with a parent company that is subject to banking supervision outside the euro area are also excluded.

Point (iii) means that entities that are comparable to banks in terms of their activities, e.g. the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis according to the Markets in Financial Instruments Directive (MiFID II), but which are classified as MiFID investment firms from a legal perspective, are not eligible.

Q1.10 In order to be eligible for purchase under the CSPP, what is the required legal form for otherwise eligible international debt securities?

Admissible forms of international debt securities are specified in Article 66 of Guideline ECB/2014/60 and depend on whether the securities are issued in global bearer or global registered form. International debt securities issued in global registered form after 30 September 2010 must be issued under the new safekeeping structure for international debt instruments. International debt securities issued in global bearer form after 31 December 2006 must be issued in the form of new global notes and are to be deposited with a common safe keeper which is an ICSD or a CSD that operates an eligible SSS. International debt instruments in individual note form issued after 30 September 2010 are not eligible.

Q1.11 With the start of the CSPP, have certain PSPP-eligible agency issuers become eligible for the CSPP instead?

Yes. Following the Eurosystem’s systematic review of all public undertakings which comply with the PSPP and CSPP eligibility criteria, it has allocated public undertakings to one or the other of the two programmes. On the basis of this review, several agency issuers previously eligible for the PSPP instead became instead eligible for CSPP purchases. These issuers are: ENEL S.p.A., SNAM S.p.A., Terna S.p.A. – Rete Elettrica Nazionale, Ferrovie dello Stato Italiane S.p.A. and ENMC – Entidade Nacional para o Mercado de Combustíveis E.P.E. Implementation aspects of the PSPP

Q1.12 What exactly do you define as a “public undertaking”?

The term “public undertaking” is understood in the sense of Article 8 of Council Regulation (EC) No 3603/93 of 13 December 1993. It defines “public undertaking” as any undertaking over which the state or other regional or local authorities may directly or indirectly exercise a dominant influence by virtue of their ownership of it, their financial participation therein or the rules which govern it. A dominant influence on the part of the public authorities is presumed when these authorities, directly or indirectly in relation to an undertaking: (a) hold the major part of the undertaking's subscribed capital; (b) control the majority of the votes attaching to shares issued by the undertaking; or (c) can appoint more than half of the members of the undertaking's administrative, managerial or supervisory body.

The Eurosystem will not publish a specific list of CSPP-eligible issuers classified as "public undertakings".

Q1.13 Which entities are considered to be an asset management vehicle or a national asset management and divestment fund established to support financial sector restructuring and/or resolution?

According to the eligibility requirements of the CSPP, the issuer of a debt instrument cannot be an asset management vehicle (as defined in the Bank Recovery and Resolution Directive and Single Resolution Mechanism Regulation) or a national asset management and divestment fund.

The latter category presently includes the following entities: Fondo de Reestructuración Ordenada Bancaria (FROB), Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB), National Asset Management Agency (NAMA), Parvalorem, Parparticipadas, Parups, Propertize, Družba za upravljanje terjatev bank (DUTB), HSH Portfoliomanagement AöR and HSH Finanzfonds AöR.

Q1.14 Which sustainability-linked debt instruments will become eligible for purchases as of 2021?

For a debt instrument to be eligible for purchase under the corporate sector purchase programme (CSPP), it must at a minimum fulfil the eligibility requirements set for Eurosystem collateral. With regard to sustainability-linked debt instruments, the following FAQ provides clarification on eligibility criteria.

Implementation of purchases and on holdings

Q2.1 How does the Eurosystem conduct CSPP purchases?

The CSPP contributes to the APP's total monthly purchase volume. Similar to the other asset purchase programmes (PSPP, CBPP3 and ABSPP), the purchase targets are not published ex ante. This allows the monthly purchase volumes to remain flexible to take into account prevailing market liquidity and activity at any time. However, data on actual holdings are published ex post on a weekly basis.

Q2.2 Can asset managers and non-bank financial institutions offer assets eligible for purchases under the APP and the PEPP?

Asset managers and non-bank financial institutions are not eligible counterparties. However, the Eurosystem offers its eligible counterparties the possibility to share offers of eligible securities on behalf of non-eligible counterparties, such as asset managers and non-bank financial institutions, under the APP and the PEPP. Although final responsibility for the offered assets remains entirely with the eligible counterparties, they can include them in the daily inventories of assets that they share with the Eurosystem, either by explicitly reporting which assets are offered on behalf of non-eligible counterparties or aggregating them with their inventories. In periods of heightened investor uncertainty, such as during the current coronavirus pandemic, this option can contribute to alleviating market tensions and supporting proper market functioning.

Q2.3 How can I find out more about the Eurosystem's corporate bond holdings?

Details on CSPP-related corporate bond holdings are published on a weekly, monthly and semi-annual basis. They include aggregate data, such as total holdings, a breakdown of primary and secondary market purchases, and a breakdown by rating, country and sector. This information is made available in the context of the APP so that observers can gain an insight into the Eurosystem's overall purchases. In addition, the ECB publishes a detailed list of CSPP corporate bond securities that are held by the Eurosystem, including the national central bank (NCB) that bought the security, the security's maturity date and its coupon rate. CSPP holdings.

Q2.4 Does the Eurosystem target or exclude specific industry sectors?

The eligibility of assets for purchases under the CSPP is guided by our monetary policy objective, taking into account appropriate financial risk management considerations. To ensure the effectiveness of monetary policy, while keeping a level playing field for all market participants and avoiding undue market distortions, the range of debt instruments eligible for the CSPP is deliberately broad and does not discriminate on the basis of the economic activity of the issuers.

As a consequence, there is no positive or negative discrimination on the basis of environmental or social criteria. For example, corporate green bonds that meet the eligibility criteria may be purchased under the CSPP. The Eurosystem has already bought such bonds, resulting in a positive contribution to the funding of environmental projects. More information on green bond purchases under the CSPP can be found in the Economic Bulletin, Issue 7/2018.

Furthermore, the ECB shares the view that an awareness of environmental issues, together with ethical and socially responsible behaviour, are important for society and actively supports several initiatives in this context beyond the purchase of green bonds under the CSPP.

Q2.5 Who conducts the purchases?

The CSPP purchases are carried out by six NCBs acting on behalf of the Eurosystem. The ECB coordinates the purchases. The NCBs conducting the purchases are the Nationale Bank van België/Banque Nationale de Belgique, the Deutsche Bundebank, the Banco de España, the Banca d'Italia, the Banque de France and Suomen Pankki – Finlands Bank.

Market segments for purchases under the CSPP are allocated to the purchasing NCBs according to the geographical location of the issuer as follows:

NCB	Market segment
Nationale Bank van België/Banque Nationale de Belgique	BE, CY, GR, LU, MT, PT, NL[4], SI and SK
Deutsche Bundesbank	DE and NL[1]
Banco de España	ES and NL[2]
Suomen Pankki/Finlands Bank	AT, EE, FI, IE, LT, LV

[1] Includes issuers with NL as residence country and DE as country of risk [2] Includes issuers with NL as residence country and ES as country of risk [3] Includes issuers with NL as residence country and IT as country of risk [4] Includes issuers with NL as residence country and a country of risk other than DE, ES or IT

NCB	Market segment
Banque de France	FR
Banca d'Italia	IT and NL[3]

[1] Includes issuers with NL as residence country and DE as country of risk [2] Includes issuers with NL as residence country and ES as country of risk [3] Includes issuers with NL as residence country and IT as country of risk [4] Includes issuers with NL as residence country and a country of risk other than DE, ES or IT

Note: The International Organization for Standardization's "country of risk" concept, used here, applies a methodology based on four factors: management location, country of primary listing, country of revenue and reporting currency of the issuer.

Q2.6 What information can counterparties reveal to their clients with regard to CSPP purchases?

For the CSPP, counterparties can communicate that the Eurosystem has been buying in the corporate space, the maturity bucket and the sector (e.g. utilities), but not the exact amounts, the issuers of the debt instruments purchased, the securities involved or the Eurosystem member involved.

Q2.7 Is the Eurosystem able to buy in the primary market?

Yes, purchases in both primary and secondary markets take place under the CSPP. However, for debt instruments issued by public undertakings, no primary market purchases take place as such purchases are forbidden owing to the prohibition on monetary financing laid down in Article 123 of the Treaty on the Functioning of the European Union (TFEU).

Q2.8 Does the Eurosystem apply any measures to mitigate potential negative effects on secondary market liquidity?

When implementing the CSPP, the Eurosystem is mindful of the potential impact of its purchases on market liquidity. When buying in the secondary market, it considers, inter alia, the scarcity of specific debt instruments and general market conditions, i.e. with a certain degree of flexibility to also take into account seasonal differences. Furthermore, the benchmark applied for purchases proportionally reflects all eligible outstanding issues. This also implies that market capitalisation provides a weighting for each of the different jurisdictions of issuance within the benchmark. Finally, CSPP corporate bond holdings are also available for securities lending by the relevant purchasing NCBs, who publish a list of the individual corporate bonds they hold on a weekly basis without revealing the size of their holdings in each corporate bond. Securities lending under the APP

Q2.9 Can the Eurosystem participate in private placements?

The Eurosystem can participate in the purchase of CSPP-eligible debt instruments via private placements. The same eligibility requirements and limits apply to private placements and public placements. The Eurosystem cannot participate in private placements issued by public undertakings. Market participants involved in private placements can contact the relevant NCB, which acts as the contact point for the Eurosystem in such situations.

Q2.10 Will income and losses be shared within the Eurosystem?

In general, income and losses from decentralised monetary policy operations conducted by the Eurosystem are shared. The CSPP is subject to a full income and loss sharing regime.

Q2.11 Will the Eurosystem reinvest maturing bonds?

In line with the other APP programmes, principal payments on the securities purchased under the CSPP will be reinvested as they mature, for as long as necessary.

Limits and risks

Q3.1 Are there any limits on CSPP corporate bond holdings per issue or per issuer group?

The Eurosystem applies a maximum issue share limit of 70% per corporate bond on the basis of the outstanding amount. Lower issue share limits apply in specific cases, for example for corporate bonds issued by public undertakings, which are dealt with in a manner consistent with their treatment under the PSPP. In relation to public undertakings, the Eurosystem is bound by the monetary financing prohibition in Article 123 of the TFEU.

The Eurosystem applies additional limits per issuer group, following a pre-defined benchmark, to ensure a diversified allocation of purchases across issuers while allowing for sufficient leeway to build up the portfolio.

Q3.2 How is an “issuer group” defined?

An issuer group is defined as a group of companies that operate as a single economic entity and constitute a single reporting entity for the purposes of presenting consolidated accounts. The issuer group consists of the parent company and all of its direct and indirect subsidiaries.

Q3.3 What are the risks of the programme and are there any plans to mitigate them? Will the Eurosystem be monitoring the creditworthiness of the companies behind its bond purchases?

As with any diversified portfolio of credit instruments, risks from the deterioration of issuers’ credit quality or from issuer defaults cannot be entirely excluded. At the same time, the risks of the programme are kept low in particular by (i) setting minimum credit quality criteria at the time of purchase, (ii) ensuring diversification through issuer group limits defined relative to a neutral benchmark, and (iii) by implementing appropriate due diligence procedures and credit risk mitigation measures on an ongoing basis (as with the CBPP3). The Eurosystem may also apply additional risk management measures as deemed necessary.

Q3.4 What does “market capitalisation” mean in the context of the internal benchmark?

The term “market capitalisation”, which is relevant in the context of the internal benchmark, refers to the nominal outstanding amount of eligible bonds issued by the issuer in question as a share of the entire CSPP-eligible universe.
