

# FAQ on the third covered bond purchase programme

Updated on 22 February 2023

## Eligibility criteria

### **Q1.1 What are the maximum and minimum maturities of covered bonds eligible for purchase under the CBPP3?**

No maximum or minimum maturity has been defined for the programme.

### **Q1.2 What is the minimum issuance volume of covered bonds eligible for purchase under the CBPP3?**

No minimum issuance volume has been defined for the programme.

### **Q1.3 How is a covered bond purchased under the CBPP3 treated if it has two or more ratings? Which rating do you use?**

If multiple, and possibly conflicting, ECAI assessments are available (i.e. external credit ratings provided by any of the four external credit assessment institutions, or eligible credit rating institutions, namely Standard & Poor's, Fitch, Moody's and DBRS), the first-best rule will be applied.

### **Q1.4 The eligibility criteria for the CBPP3 foresee that only securities accepted for own use can be purchased. Can you confirm this and also describe the treatment given to *multi-cédulas*?**

In principle, all covered bonds that comply with the eligibility criteria established in Part Four of Guideline (ECB/2014/60), as amended, are eligible. The rules for the own use of covered bonds are set out in Article 138 of the Guideline.

Concretely, this Article states that the Eurosystem exempts specific debt instruments from the "close links" rule. As such, covered bonds can be "own-used" as collateral (with the exception of intragroup pooled covered bonds) by the issuer (or by a closely linked counterparty) if they comply with the CRD/CRR. The actual or potential inclusion of government-guaranteed bank bonds in a pool of covered bonds pursuant to Article 139(1)(b) of Guideline (ECB/2014/60) does not affect the eligibility of such covered bonds for own-use. From 1 February 2020 covered bonds are only eligible for own use if they have an ECAI rating. Multi-cédulas are considered eligible for CBPP3 purchases as clarified in the ECB Decision of 15 October 2014 (ECB/2014/40).

### **Q1.5 Are registered covered bonds (e.g. German *Namenspfandbriefe*) part of the investable universe?**

*Namenspfandbriefe* are not eligible under the Eurosystem collateral framework, as these instruments do not meet the criterion that a debt instrument must be transferable in book-entry form (Article 67(1) of Guideline ECB/2014/60). Instead, the transfer of a *Namenspfandbrief* usually takes the form of an assignment, as the owner is registered in a separate register.

### **Q1.6 Does the prohibition of monetary financing, as laid down in Article 123 of the Treaty on the Functioning of the European Union, have to be respected under the CBPP3 in terms of purchases of bonds issued by publicly owned credit institutions?**

Purchases made under the CBPP3, which are monetary policy operations and constitute supply of reserves, make no distinction between covered bonds issued by public sector credit institutions and those issued by private sector institutions. This is in line with the provisions of Article 123(2) of the Treaty.

### **Q1.7 Does the issue share limit of 70% apply only to CBPP3 holdings?**

No, the 70% limit applies to the combined covered bond holdings of the Eurosystem's monetary policy purchase programmes and the Eurosystem's investment portfolios.

### **Q1.8 Why are conditional pass-through covered bonds no longer eligible for purchase?**

The Governing Council decided to exclude conditional pass-through covered bonds from purchases under the CBPP3 as of 1 January 2019. The decision reflects their somewhat more complex structure, whereby some pre-defined events may lead to an extension of a bond's maturity and to a switch in the payment structure.

The decision was taken within the context of the CBPP3 and has no consequences for the eligibility of conditional pass-through covered bonds in the Eurosystem collateral framework.

## **Retained bonds**

### **Q2.1 Why would a bank sell retained covered bonds to the CBPP3 when they can be placed at the ECB for repo purposes?**

It is up to individual institutions to manage their own funding sources, including liability structure, maturity breakdown and any decision between the market-placement and retention of bonds.

### **Q2.2 Does the issue share limit of 70% per international securities identification number (ISIN) also apply to “fully retained” issues?**

Yes.

## **Procedures**

### **Q3.1 Does the Eurosystem share income and losses generated by the CBPP3?**

As a general rule, income and losses from decentralised monetary policy operations conducted by the Eurosystem are shared.

### **Q3.2 Does the Eurosystem apply any specialisation in purchases across jurisdictions and maturities?**

For efficiency reasons, the Eurosystem's internal decisions on the allocation of particular purchases to its members take due account of their specific competencies.

### **Q3.3 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 of sharing offers of eligible securities on behalf of non-eligible counterparties, such as asset managers and non-bank financial institutions, under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP). Although final responsibility for the offered assets remains entirely with the eligible counterparties, they can include them in the daily inventories of assets 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.

## **Collateral eligibility**

### **Q4.1 Under the CBPP3, the Eurosystem is able to buy up to 70% of a securities issue per international securities identification number. In the case of the remaining 30%, are these eligible for Eurosystem repo purposes, assuming they meet the covered bond requirement criteria?**

If all eligibility criteria are fulfilled, the remaining outstanding amount of the covered bonds can be used as collateral in Eurosystem credit operations.

## **Other questions**

### **Q5.1 How are CBPP3 purchases conducted? What will change during the period of partial reinvestment?**

From the beginning of March 2023, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of June 2023 and its subsequent pace will be determined over time. The remaining reinvestment amounts will be allocated proportionally to the share of redemptions across each constituent programme of the APP.

The Eurosystem continues to adhere to the principle of market neutrality via smooth and flexible implementation of CBPP3.

Market capitalisation continues to be the guiding principle for purchases. No changes have been made to the eligibility criteria or guiding principles for the period of partial reinvestment.

Primary market purchases will be phased out prior to the start of the partial reinvestments in order to better steer the amount of the purchases conducted under the CBPP3. Therefore, the Eurosystem will not participate in primary market issuances that settle in March 2023 or thereafter.

Data on the CBPP3 holdings will continue to be published at an unchanged frequency: ex post and on a weekly basis for the size of the CBPP3 holdings, on a monthly basis for the breakdown of primary and secondary market holdings, and half-yearly for the breakdown by country of risk and rating.

Moreover, as has already been the case since 12 September 2019, purchases of eligible covered bonds at yields to maturity below the deposit facility rate can be conducted to the extent necessary.

**Q5.2 My internal compliance unit asks if the Eurosystem would give permission to say, for example, “We have seen decent buying by the Eurosystem of five to seven year Dutch covered bonds in bigger clips, which tightened spreads by 2 basis points.” (We would never state which Eurosystem member, always using the more general term “Eurosystem”).)**

In this specific case we would agree that, for the CBPP3, counterparties could communicate that the Eurosystem had been buying, but not the exact amounts, the securities involved or which Eurosystem member.

**Q5.3 Where on the ECB’s website can I find a list of the Eurosystem’s current holdings of covered bonds?**

Information on CBPP3 holdings is provided in the section on asset purchase programmes.

**Q5.4 Does the Eurosystem act as a “regular” investor when conducting purchases under the CBPP3?**

The Eurosystem purchases covered bonds at prevailing market prices.

**Q5.5 Banks in some countries do not issue covered bonds and do not own asset-backed securities (ABS). How does the Eurosystem help those banks if they do not own securities that the Eurosystem is willing to purchase?**

Even if the ABS market is small/non-existent at the moment, the mere fact that the Eurosystem is willing to buy asset-backed securities and covered bonds could encourage banks from these jurisdictions to issue such instruments.

**Q5.6 The CBPP3 will crowd out private sector investors unless the new supply of eligible bonds rises substantially. The covered bond market also has no structural deficiencies and is thus clearly not in need of yet another ECB purchase programme. Why have you nevertheless decided to buy covered bonds?**

Covered bonds have some features that are important from a monetary policy perspective.

First, the link on the issuing bank's balance sheet between the covered bond, on the one hand, and the loans that back the covered bond, on the other, is reasonably tight. As the prices for covered bonds increase, we expect banks to respond by originating more covered bonds and thus more loans to collateralise them.

Second, outright interventions in this market will complement other purchases by reinforcing the portfolio rebalancing channels of monetary policy transmission and generating positive spillovers into other markets and securities. This will further ease funding and credit conditions.

Third, taken together, the Eurosystem's non-conventional measures should be seen as complementing one another, strengthening the combined impact on liquidity and the economy. Finally, purchases take due account of market functioning.

### **Q5.7 Why did you switch from a daily publication of covered bond purchases to a weekly one?**

The ECB decided to harmonise publication practices regarding the different monetary policy portfolios. For the covered bond purchase programmes and the Asset-Backed Securities Purchase Programme in particular, the publication practices already in place for the Securities Markets Programme were adopted to ensure greater consistency. The weekly publication of the settled amounts is in line with the medium-term objectives of the programmes and is consistent with the weekly release of the Eurosystem financial statement.

### **Q5.8 Could the Eurosystem have preferred creditor status for the CBPP3?**

There is no legal basis on which the ECB could either claim or enforce preferred creditor status in the event of a default on covered bonds it has purchased under the CBPP3. That said, covered bonds qualify as senior secured debt, which under Article 38(1)(b) of the Bank Recovery and Resolution Directive is explicitly exempt from any bail-in measure in the event of bank resolution.

### **Q5.9 There have been an increasing number of consent solicitations in the covered bond market with issuers asking investors to approve changes to the terms of outstanding bonds or specific programme details. Given the Eurosystem's large presence in the covered bond market, has it adopted any general stance towards consent solicitations?**

The Eurosystem has noted the increasing number of consent solicitations in the euro area covered bond market and has continued to thoroughly examine the merits of each individual case in developing a consistent approach towards such consent solicitations.

The Eurosystem will normally aim to adopt a neutral approach towards consent solicitations thereby facilitating a market-based decision on the changes proposed. Furthermore, the Eurosystem is of the view that improvements could be made to two features of the consent solicitation process:

- The Eurosystem has reservations about the practice of only paying the consent solicitation fee to those bondholders who vote in favour of the proposal. Such an approach is viewed as inadequate. Rather, the Eurosystem is of the view that any such fee should be paid to all bondholders when changes are approved, to compensate all bondholders for the impact of those changes.
- Efforts to make the consent solicitation process more transparent (for example, more precise data on voter participation) should be considered.

#### **Q5.10 Can the Eurosystem participate in private placements of CBPP3 eligible covered bonds?**

As of March 2023 the Eurosystem cannot participate in private placements.

---

Copyright 2023, European Central Bank