

**DECISION OF THE EUROPEAN CENTRAL BANK****of 19 November 2014****on the implementation of the asset-backed securities purchase programme****(ECB/2014/45)**

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first indent of Article 127(2) thereof,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular the second subparagraphs of Article 12.1 in conjunction with the first indent of Article 3.1, and Article 18.1 thereof,

Whereas:

- (1) In accordance with Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank, the European Central Bank (ECB), together with national central banks of Member States whose currency is the euro, may operate in the financial markets by, among other things, buying and selling marketable instruments outright.
- (2) On 4 September 2014 the Governing Council decided that a new asset-backed securities purchase programme (ABSPP) should be initiated. Alongside the third covered bond purchase programme¹ and the targeted longer-term refinancing operations² the ABSPP will further enhance the transmission of monetary policy, facilitate credit provision to the euro area economy, generate positive spill-overs to other markets and, as a result, ease the ECB's monetary policy stance, and contribute to a return of inflation rates to levels closer to 2%.
- (3) As part of the single monetary policy, the outright purchase of eligible asset-backed securities (ABS) by the ECB under the ABSPP should be implemented in a uniform and, exceptionally during the initial phase, centralised manner, in accordance with this Decision.

¹ Decision ECB/2014/40 of 15 October 2014 on the implementation of the third covered bond purchase programme. Not yet published in the Official Journal.

² Decision ECB/2014/34 of 29 July 2014 on measures relating to targeted longer-term refinancing operations (OJ L 258, 29.8.2014, p. 11).

- (4) After the initial phase of the ABSPP, it is intended that the ABSPP should be implemented in a uniform and decentralised manner by the Eurosystem central banks in accordance with a subsequent decision to that effect by the Governing Council,

HAS ADOPTED THIS DECISION:

Article 1

Establishment and scope of the ABSPP

The ABSPP, under which the ECB shall purchase eligible ABS within the meaning of Article 2 and in accordance with the provisions of this Decision, is hereby established. Under the ABSPP, the ECB may instruct its agents to purchase eligible ABS on its behalf in the primary and secondary markets from eligible counterparties within the meaning of Article 4.

Article 2

Eligibility criteria for the outright purchase of ABS

ABS shall be eligible for outright purchase under the ABSPP provided that they satisfy the following eligibility criteria.

- (1) The ABS have a credit quality assessment in compliance with, at a minimum, credit quality step 3 in the Eurosystem's harmonised rating scale³, expressed in the form of at least two public credit ratings provided by any two External Credit Assessment Institutions (ECAIs) accepted within the Eurosystem Credit Assessment Framework (ECAF).
- (2) Other than as provided in point 1 above, the ABS fulfil the eligibility criteria applicable to ABS submitted as collateral for Eurosystem monetary policy operations as laid down in Annex I to Guideline ECB/2011/14⁴ (as amended by Guideline ECB/2012/25⁵ and Guideline ECB/2014/10⁶) and in Decision ECB/2013/35⁷.
- (3) Where the ABS do not have a credit quality assessment in compliance with at least credit quality step 2 in the Eurosystem's harmonised rating scale, expressed in the form of at least two public

³ As published on the ECB's website.

⁴ Guideline ECB/2011/14 of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem (OJ L 331, 14.12.2011, p. 1).

⁵ Guideline ECB/2012/25 of 26 November 2012 amending Guideline ECB/2011/14 on monetary policy instruments and procedures of the Eurosystem (OJ L 348, 18.12.2012, p. 30).

⁶ Guideline ECB/2014/10 of 12 March 2014 amending Guideline ECB/2011/14 on monetary policy instruments and procedures of the Eurosystem (OJ L 166, 5.6.2014, p. 33).

⁷ Decision ECB/2013/35 of 26 September 2013 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (OJ L 301, 12.11.2013, p. 6).

credit ratings provided by any two ECAs accepted within the ECAF, the ABS must, in addition to fulfilling the requirements of point 2, fulfil the eligibility criteria applicable to ABS submitted as collateral for Eurosystem monetary policy operations pursuant to Article 3 of Guideline ECB/2014/31⁸.

- (4) No less than 90% of the obligors of the cash-flow generating assets backing the ABS are classified as private sector non-financial corporations⁹ or natural persons, measured by reference to the outstanding principal amount of the cash-flow generating assets attributable to such obligors.
- (5) No less than 95% of:
 - (a) the outstanding principal amount of the cash-flow generating assets backing the ABS issue is denominated in euro;
 - (b) any properties securing the cash-flow generating assets backing an ABS issue of residential mortgage-backed securities (RMBS) or commercial mortgage-backed securities (CMBS) are located in the euro area, measured by reference to the outstanding principal amount of the cash-flow generating assets attributable to such properties; and
 - (c) the obligors of the cash-flow generating assets backing the ABS issue (other than ABS issues of RMBS and CMBS described under point (b)), measured by reference to the outstanding principal amount of the cash-flow generating assets attributable to such obligors, are incorporated or resident, as applicable, in the euro area.
- (6) The issuer of the ABS is established in the euro area.
- (7) A tranche of ABS (with the same or fungible International Securities Identification Number (ISIN)) which, at the time assessed by the ECB for potential purchase in accordance with Article 3, was retained in full by the originator or entities with which it has close links¹⁰ will be eligible for purchase under the ABSPP if an external investor without a close link to the originator (with the exception of a Eurosystem central bank acting outside the framework of the ABSPP) also purchases part of that tranche of ABS (with the same or fungible ISIN).
- (8) Where the obligors of the cash-flow generating assets backing an ABS issue are incorporated or resident in Greece or Cyprus, the minimum rating level set out in point 1 shall not apply to those ABS provided that they are subject to the purchase limit specified in Article 5(2) and satisfy all other applicable eligibility criteria for purchase under the ABSPP and all of the following additional requirements:

⁸ Guideline ECB/2014/31 of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (OJ L 240, 13.8.2014, p. 28).

⁹ 'Non-financial corporations' has the meaning given to it in the European System of Accounts as referred to in Annex I to Guideline ECB/2011/14.

¹⁰ 'Close links' has the meaning given to it in Section 6.2.3.2 of Guideline ECB/2011/14.

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- (a) the Eurosystem's minimum credit quality threshold used in determining the eligibility as collateral of marketable debt instruments issued or guaranteed by the Greek or Cypriot governments is not applied pursuant to Article 8(2) of Guideline ECB/2014/31;
- (b) the ABS have two public credit ratings from any two ECAIs accepted within the ECAF at the maximum achievable rating level for ABS issues in the relevant Member State;
- (c) the structure of the ABS issue incorporates current credit enhancement (such as the credit enhancement provided by all tranches of the ABS issue which are subordinated to the ABS tranche eligible for purchase) equal to a minimum of 25% of the current principal amount outstanding of all tranches of the ABS issue;
- (d) investor reports are available and the ABS can be modeled using standard third party ABS cash-flow modelling tools, as assessed by the ECB;
- (e) the best available credit quality assessment of each of the following counterparties in the ABS issue (if relevant), with the exception of the servicer, complies with a minimum of credit quality step 3 in the Eurosystem's harmonised rating scale, expressed in the form of at least one public credit rating from any single ECAI accepted within the ECAF:
 - (i) any issuer account bank;
 - (ii) any issuer account bank guarantor;
 - (iii) any liquidity facility provider;
 - (iv) any hedge counterparty;
 - (v) the principal paying agent; and
 - (vi) any guaranteed investment contract provider.
- (f) a back-up servicer for the ABS issue has been appointed.

Article 3

Credit risk assessment and due diligence

Prior to the purchase of any ABS fulfilling the eligibility criteria under Article 2, the ECB shall conduct a credit risk assessment and due diligence in relation to such ABS.

Article 4

Eligible counterparties

The following shall be eligible counterparties for the ABSPP, both for outright transactions and for securities lending transactions involving ABS held in ABSPP portfolios: (a) counterparties participating in Eurosystem monetary policy operations as defined in Section 2.1 of Annex I to Guideline

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ECB/2011/14; (b) counterparties that are used by Eurosystem central banks for the investment of their euro-denominated investment portfolios; and (c) entities deemed to be eligible counterparties for outright transactions under the ABSPP by the Governing Council on the basis of a Eurosystem counterparty risk assessment by the ECB.

Article 5

Purchase limits

1. Other than as provided for in paragraph 2, no more than 70% of the outstanding amount of a tranche of ABS (with the same or fungible ISIN) may be purchased and held pursuant to the ABSPP at any time.
2. In relation to a tranche of ABS (with the same or fungible ISIN) eligible for purchase under point 8 of Article 2, no more than 30% of the outstanding amount of such tranche may be purchased and held pursuant to the ABSPP at any time.

Article 6

Entry into force

This Decision shall enter into force on the day following its publication on the ECB's website.

Done at Frankfurt am Main, 19 November 2014.

[signed]

The President of the ECB

Mario DRAGHI