

23 April 2020

Ms. Imène Rahmouni Rousseau
Head of Operations
European Central Bank
60640 Frankfurt am Main
Germany

Cc: Cornelia Holthausen (Deputy Director General of the Directorate General Market Operations, ECB); Torsti Silvonen Deputy Director General of the Directorate General Marke Operations , ECB); Ulrich Bindseil (Director General of Market Infrastructure and Payments, ECB); Nathalie Aufauvre (Directrice Générale de la stabilité et des opérations, Banque de France); Olivier Cousseran (Directeur de la Mise en œuvre de la politique monétaire, Banque de France) ; Sebastian Schuetz (Hauptgruppenleiter Bewertung notenbankfähiger Sicherheiten, Deutsche Bundesbank); Antonio Scalia (Risk Management Dept., Banca d'Italia); Stefania Bacchetta (Collateral Management, Market Operations Dept, Banca d'Italia); Gerardo Palazzo (Institutional Activities Risk Control, Risk Management Dept., Banca d'Italia)

Dear Ms. Rahmouni Rousseau,

Request regarding the eligibility of Asset Backed Commercial Paper for the Eurosystem monetary policy framework

On behalf of ICMA's Euro Commercial Paper (ECP) Committee, we are writing to you to request that in light of the current monetary policy response to the COVID-19 pandemic, the Asset Backed Commercial Paper (ABCP) of EEA issuers be considered eligible marketable assets from the perspective of the Eurosystem's collateral framework, based on the same eligibility criteria as other non-financial commercial paper. We believe that this would not only help to enhance the pool of eligible collateral to accommodate monetary policy, but it would have direct and tangible benefits for the European economy.

Multi-seller ABCP programmes provide a vital source of funding for the European economy, facilitating almost €100 billion equivalent in working capital for European corporations. Sellers can be medium-sized firms that may not have direct access to capital markets (and therefore without the support of the ECB's Asset Purchase Programmes), or large corporation looking to enhance their liquidity and improve their balance sheet structure.

In the current market turbulence, where commercial papers placed have reduced to maturities below one week, this vital source of funding is at risk of being disrupted. All European ABCP conduits benefit from fully supported liquidity lines provided by their sponsor banks. If there is a market disruption due to lack of liquidity, then ABCP conduits will draw their liquidity lines with their sponsor banks. This situation will not only create additional liquidity stress for banks but also for all corporates and auto captives that fund their working capital with ABCP conduits. Indeed, the cost of such liquidity lines drawdowns is very high for the corporates and auto captives, and moreover the conduits are likely to stop their purchases of new assets, depriving these clients of this source of working capital.

Providing eligibility for ABCP, firstly with respect to the Eurosystem's collateral framework for monetary policy credit operations, and secondly for purchases under the ECB's Pandemic Emergency Purchase Programme (PEPP), would provide meaningful support for this important source of funding for the European economy, helping to extend and diversify the investor base to include more European entities for whom Eurosystem eligibility is an essential requirement, and making funding less reliant on US investors via the USCP market.

It should be noted that ABCP were previously granted ECB eligibility for the Eurosystem's collateral Framework in 2008 as part of the ECB's response to the financial crisis. Since then, ABCP structures have become more robust, Structured Investments Vehicles ('SIVs'), which were for a large part 'arbitrage conduits', have disappeared in the last ten years. They left the floor to Multi-seller ABCP conduits used by sponsor banks to fund real economy assets (trade receivables, autoloans/ leases, etc.) to serve their clients. This important change was due to efforts conducted both by regulators and market participants, also based on ECB recommendations. ABCP programs are now subject to far greater transparency requirements as a result of the introduction of the regulation EU 2017/2402 that has not only introduced the 'Simple, Transparent and Standardised' label, but also several rules and guidelines further developed in regularly technical standards (RTS) by the EBA and ESMA (under the Capital Requirements Regulation). From a credit perspective, ABCP conduits are funding-selected assets with high quality and credit enhancement protections. They are publicly rated by rating agencies for the benefit of investors. ABCP programmes today cannot be compared with the SIV structures of ten years ago.

In addition, from a regulatory point of view, it should be noted that ABCP programs are not financial institutions as they are Securitisation Special Purpose Entities ('SSPE'), as stated in article 2 of the regulation EU 2017/2402, and this point was confirmed by EBA in a consultation.¹ Therefore, if ABCP programs are not financial institutions, and since they fund corporates receivables, ABCP issued by these programs to fund ABCP transactions should be considered as 'non-financial commercial papers' and should arguably be included in the PEPP.

It is worth noting that ABCP are currently included in the COVID-19 monetary policy responses of other major jurisdictions where ABCP plays a prominent role in funding the corporate sector. These include the Federal Reserve's Corporate Paper Funding Facility (CPFF) as well as inclusion in the collateral eligibility schedules of the monetary policy frameworks of both the Bank of England and the Bank of Canada.

¹ See question 2014_1530: https://eba.europa.eu/single-rule-book-ga/-/qna/view/publicId/2014_1530

We believe that the extension of eligibility to suitably rated European ABCP, for both the Eurosystem collateral framework, and the PEPP (either under the Corporate Sector Purchase Programme or the Asset Backed Securities Purchase Programme), would bring significant benefits. As well as expanding the pool of assets available to the European System of Central Banks in its implementation of monetary policy in the response to the current emergency (beyond those available under the current PEPP parameters), it would also support a significant and vital source of short-term funding and working capital for European corporates, including those who may not have direct access to capital markets. In doing so, it would also deepen and broaden the investor base for European ABCP, particularly with respect to European investors, further enhancing financing possibilities of corporates and auto captives. This extension would be fully in line with the efforts developed by European Commission under its Capital Markets Union project since 2015.

In the near term, we are convinced that ABCP conduits can be part of the solution developed by ECB and National Central Banks together with sponsor banks, investors and market participants to face the difficult times ahead of European economy towards smooth recovery.

We would be very happy to discuss our proposal and the perceived benefits in more detail at your earliest available convenience, and could quickly convene a call of the ECP Committee with you and your colleagues.

Your sincerely,

A handwritten signature in black ink that reads "MS Scheck". The signature is written in a cursive, slightly slanted style.

Martin Scheck
Chief Executive
ICMA

ICMA's [Euro Commercial Paper \(ECP\) Committee](#) comprises the heads and senior members of the ECP teams of those ICMA member banks who are the main dealers in the ECP market. It also involves active participation from invited observers, involved in topics relevant to the Committee's agenda. The general nature of the Committee's concerns (and so discussions) are those issues pertinent to the ongoing effective operation of the ECP market. These include not only general discussion of business, legal and technical concerns extant in the ECP market, but also specific practical concerns, such as the maintenance of the ECP markets standard documentation as found in the [ICMA Primary Market Handbook](#) and review of relevant EC, ESMA and national regulatory proposals ([related documents](#)).