EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Ms Irene Tinagli
Mr Jonás Fernández
Ms Carla Tavares
Mr Nikos Papandreou
Ms Evelyn Regner
Mr Matthias Ecke
Ms Elisabetta Gualmini
Ms Camilla Laureti
Mr Thomas Bajada
Mr Bruno Gonçalves
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 February 2025

CL/LS/25/64

Re: Your letter (QZ-015)

Honourable Members of the European Parliament, dear Ms Tinagli, Mr Fernández, Ms Tavares, Mr Papandreou, Ms Regner, Mr Ecke, Ms Gualmini, Ms Laureti, Mr Bajada and Mr Gonçalves,

Thank you for your letter regarding our collateral framework for refinancing operations, which was passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 7 January 2025.

In your letter, you ask for an update on the state of play of the Eurosystem collateral framework. The Eurosystem continuously monitors and assesses its collateral framework to ensure that it remains aligned with its underlying principles and that it continues to support the smooth and effective implementation of the ECB's monetary policy in the face of structural and regulatory developments. Over the last two years, the Eurosystem collateral framework has continued to evolve.[1] For example, in November 2023, the ECB's Governing Council decided to accept Scope Ratings, a European credit rating agency, as a new external credit assessment institution (ECAI) for the purposes of the Eurosystem credit assessment framework (ECAF).[2] More recently, the Governing Council confirmed that it will continue to assess the eligibility of euro area public sector assets for collateral purposes using the first-best available rating issued by an accepted ECAI.[3]

The collateral framework is based on the stipulation in the ECB's statute that lending to banks through refinancing operations can only be provided against adequate collateral. To ensure that collateral is adequate, the Eurosystem has a well-established credit assessment framework that defines a set of procedures and rules.[4] A minimum credit quality standard for all eligible assets, including sovereign bonds, forms part of these rules.

In your letter, you highlight that central banks around the world tend to accept their domestic sovereign bonds as collateral irrespective of their credit quality, while the Eurosystem has specific eligibility criteria for all assets, including euro area sovereign bonds.[5] The Eurosystem does not, however, mechanically rely on the credit ratings provided by the accepted ECAIs when assessing the credit quality of assets, including in the case of euro area sovereign bonds.

With respect to euro area sovereign ratings, the Eurosystem conducts in-depth due diligence on all ratings provided by accepted ECAIs. This due diligence results in a comprehensive understanding of the underlying reasons for credit rating agencies' decisions, which allows the Eurosystem to avoid relying mechanically on these ratings.[6] The Governing Council has in fact deviated from external credit ratings in the past and on some occasions decided to temporarily suspend the application of the minimum credit rating threshold in the

1 See, for instance, "ECB harmonises rules for Eurosystem collateral management", *press release*, ECB, 14 August 2024, and "ECB announces changes to the Eurosystem collateral framework to foster greater harmonisation", *press release*, ECB, 29 November 2024. Recent changes to the collateral framework are also explained in "Changes to the Eurosystem collateral framework to foster greater harmonisation", *Economic Bulletin*, Issue 1, ECB, 2025.

2 See "ECB accepts Scope Ratings within Eurosystem Credit Assessment Framework", *press release*, ECB, 10 November 2023.

3 This confirmation came in the context of the announcement of the decision to change the rules on the use of credit ratings issued by ECAIs to assess the eligibility of private sector assets. Under the new rules, private sector assets will be assessed on the basis of the second-best rating among those provided by accepted ECAIs. See "ECB announces changes to use of external ratings for private sector assets in Eurosystem collateral framework", *press release*, 21 February 2025.

4 These rules are publicly defined in the legal acts of the Eurosystem. For more information, see "Eurosystem credit assessment framework (ECAF)" on the ECB's website.

5 This does not prevent other central banks from applying risk control measures on those sovereign bonds, as the Eurosystem does.

6 See the box entitled "Sovereign credit ratings in the Eurosystem's monetary policy implementation framework" in "Monetary-fiscal policy interactions in the euro area", *Occasional Paper Series*, No 273, ECB, September 2021.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

collateral eligibility requirements.[7] Such temporary deviations were deemed warranted by the Governing Council to ensure the smooth transmission of its monetary policy while adhering to the principles of the ECAF.

The Governing Council reserves the right to deviate from credit rating agencies' ratings if warranted, in line with its discretion under the monetary policy framework, in order to fulfil its primary objective of maintaining price stability in the euro area.

Yours sincerely,

[signed]

Christine Lagarde

[7] See for instance, "ECB announces change in eligibility of marketable debt instruments issued or guaranteed by the Cypriot government", *press release*, ECB, 2 May 2013; "ECB announces change in eligibility of debt instruments issued or guaranteed by the Portuguese government", *press release*, ECB, 7 July 2011; and "ECB announces change in eligibility of debt instruments issued or guaranteed by the Greek government", *press release*, ECB, 3 May 2010.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal Address
European Central Bank
60640 Frankfurt am Main
Germany

Tel. +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu