

France Insight: The Bank of France's capacity to purchase NEU CP in response to COVID-19 (Coronavirus)

I. Introduction

The European Central Bank (ECB) announced on March 18, 2020 the launch of the [Pandemic Emergency Purchase Programme](#) (PEPP), with an overall envelope of EUR 750 billion. This includes the [purchase of commercial corporate paper](#), including NEU CP. It was implemented as of March 27th 2020.

This programme is part of the [Corporate Sector Purchase Programme](#) (CSPP), which is one of the components of Quantitative Easing. The eligibility criteria, as determined by the Eurosystem, are therefore the same as those for the CSPP, with the exception of the maturity of the assets (maximum initial maturity of one year (365/366 days) and a residual maturity of at least 28 days) and the minimum issue size (10 million euros), according to the Bank of France. This note focuses on the conditions of eligibility to this programme and the role of the Bank of France.

II. Eligibility

As previously mentioned, the conditions of eligibility are similar to those for the CSPP and are determined by the Eurosystem in accordance with the criteria laid down in Decisions [ECB2020/440](#) and [ECB2020/441](#).

The rules that apply are those of the ECB's 2016 bond purchase programme, in particular with regard to the rating criterion. Only companies with a high credit rating on their short-term debt can benefit from the contingency plan. This excludes many issuers on this market, and does not allow the Bank of France any leeway. Furthermore, only the ratings assigned by the four major North American agencies DBRS, Fitch, Moody's and S&P Global Ratings are taken into account. However, this has left many issuers who have opted for services of agencies from German or French agencies (Scope and Quivalio respectively, both approved by the European Securities and Markets Authority) to be non-eligible to the programme. The ratings may relate to the security, the issuer (short or long-term), or the guarantor (long-term) but not to the programme, as the Eurosystem requires that International Securities Identification Numbers (ISINs) be explicitly and unambiguously linked to the programme, which is currently not the case for NEU CPs. The Eurosystem texts lead to refer only to agency ratings (ratings external to the BoF).

For the Bank of France to participate, issuers must indicate three things: a fixed amount, a fixed maturity and a fixed coupon. Additionally and as already mentioned,

the minimum tickets are 10 million euros, an amount that is not unusual on the market, but which remains high for smaller issuers. However, for the moment, larger tickets seem to be privileged according to the French financial newspaper “Les Echos”.

III. The role of the Bank of France

The Bank of France’s role is to intervene in the primary market for securities of private issuers, as well as in the secondary market by buying commercial paper from counterparties eligible for Eurosystem monetary policy operations (via dealers, neither from brokers nor directly from issuers).

To confirm the eligibility of a security, the Eurosystem requires a certain amount of information. In order to facilitate and simplify the task of issuers, the Bank of France pre-fills a "Term sheet programme", based on the information contained in the financial documentation of each issuer published on the Bank of France's website, intended for the departments in charge of collateral management at the Bank of France. Issuers are then invited to clarify the information contained in this “Term Sheet Programme” in their financial documentation as and when it is updated in order to simplify the acceptance of securities issued under the Eurosystem's purchase programmes.

For a transaction to be carried out, its compliance with the eligibility criteria must first be verified and validated by the Eurosystem (in the case of the NEU CP, the Bank of France). In this respect, for each transaction proposal, a transaction form (Term Sheet Transaction) describing the proposed transaction must first be sent to the Bank of France's Front Office by the Dealer (and not by the issuer). This Term Sheet may include some questions about the programme relating to information that is not sufficiently detailed in the financial documentation. This form ("ISIN" tab XLS file) will be filled in by the Dealer and sent to the Bank of France's Front Office. Once the Front Office is satisfied that the transaction complies with the eligibility criteria, it will be able to choose whether or not to conclude the transaction with the Dealer. It is understood that the exchange of forms will be done via Bloomberg chat or email.

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