



## HOW THE NEU CP MARKET CAN GIVE EUROPEAN CORPORATES ACCESS TO THE ECB'S PANDEMIC EMERGENCY PURCHASE PROGRAMME (PEPP)

### WHAT IS THE PEPP AND WHY HAS IT BEEN PUT IN PLACE?

On 18 March 2020, the European Central Bank (the "ECB"), taking into account the exceptional economic and financial circumstances associated with the spread of COVID-19, decided to launch a new temporary pandemic emergency purchase programme (the "PEPP"), pursuant to which it will purchase eligible securities (often referred to as 'assets' by the ECB). Upon its launch, the ECB described the PEPP as a 'proportionate' measure to 'counter the serious risks to price stability, the monetary policy transmission mechanism and the economic outlook in the euro area, which are posed by the outbreak and escalating diffusion of COVID-19.'<sup>1</sup> Such is the ECB's commitment to the PEPP in the fight against the current crisis, Christine Lagarde, President of the ECB, announced on 30 April 2020 that the ECB is "fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed."<sup>2</sup>

Under the PEPP, the ECB will make €750 billion available for asset purchases in both the primary and secondary markets. The programme will remain in place until the end of 2020 or, if later, the end of the COVID-19 crisis,<sup>3</sup> and is separate from, and in addition to, the ECB's existing asset purchase programme (the "APP"), which comprises (i) the secondary markets public sector asset purchase programme, (ii) the third covered bond purchase programme, (iii) the asset-backed securities purchase programme and (iv) the corporate sector purchase programme (the "CSPP").

Assets will be accepted for purchase under the PEPP in accordance with the existing APP criteria, which have been slightly modified by the ECB so that it has more flexibility and can accept a wider range of assets. One of these changes, of particular importance to European corporates and the Neu CP market, relates to the CSPP criteria (a sub-set of the above-mentioned APP criteria). The range of eligible assets under the CSPP has been expanded to non-financial commercial paper, making all commercial paper of sufficient credit

#### Executive summary

- Banque de France to purchase Neu CP as part of the ECB's pandemic emergency purchase programme (PEPP)
- Eligibility criteria apply to both issuers and the commercial paper being issued
- Currently up to €750 billion is being made available by the ECB under the PEPP, though this upper limit may be increased

*"We will conduct net asset purchases under the PEPP until the Governing Council judges that the coronavirus crisis phase is over, but in any case until the end of this year."*  
Christine Lagarde, President of the ECB, 30 April 2020

<sup>1</sup> Recital (4), [Decision \(EU\) 2020/440](#) of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17).

<sup>2</sup> Christine Lagarde, President of the ECB, 30 April 2020: <https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200430~ab3058e07f.en.html>.

<sup>3</sup> Christine Lagarde, President of the ECB, 30 April 2020: <https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200430~ab3058e07f.en.html>.

quality eligible for purchases under the PEPP.<sup>4</sup> Previously, under the CSPP the ECB only purchased commercial paper with a remaining maturity greater than six months.<sup>5</sup> Since 24 March 2020, the threshold has been lowered to 28 days for marketable debt instruments with an initial maturity of 365/366 days.<sup>6</sup>

## WHAT IS THE RELEVANCE OF THE PEPP TO THE NEU CP MARKET?

Following the change to the CSPP criteria and as part of the PEPP, the Banque de France (one of six national central banks currently conducting purchases on behalf of the Eurosystem<sup>7</sup>) has, since the end of March 2020, been buying Neu CP, initially with maturities between 6 months and 1 year, but more recently between 1 month and 3 months.<sup>8</sup> Such activity has helped to reactivate the Neu CP market which at the end of March/beginning of April was inaccessible to the majority of European corporate issuers<sup>9</sup>, although it may still be difficult for unrated groups to access the market given that they are not eligible for the PEPP.<sup>10</sup>

## HOW CAN EUROPEAN CORPORATES FIND OUT IF THE BANQUE DE FRANCE CAN PURCHASE ANY OF THEIR NEU CP UNDER THE PEPP?

Before a European corporate can benefit from the PEPP, the Banque de France, acting on behalf of the Eurosystem, must check the eligibility of its Neu CP. This is done via an intermediary, usually one of the Dealers on the issuer's Neu CP programme, as the Banque de France does not deal with issuers directly.<sup>11</sup> As part of the process, the relevant Dealer must submit completed CSPP eligibility templates (also referred to as Term Sheets) to the Banque de France on behalf of the relevant issuer. The templates to be completed by the issuer contain information on the Neu CP programme generally (*inter alia*, the name of the Issuer and any Guarantors, credit quality, features of the Neu CP, ranking of the Neu CP, listing, coupon, covenants) and the specific Neu CP to be issued or already issued (*inter alia*, currency, maturity date, issuance amount).

*"...Such activity has helped to reactivate the Neu CP market which at the end of March/beginning of April was inaccessible to the majority of European corporate issuers..."*

*"Extraordinary times require extraordinary action", tweet from Christine Lagarde, President of the ECB, 18 March 2020*

<sup>4</sup> Recital (11), [Decision \(EU\) 2020/440](#) of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17).

<sup>5</sup> Article 2(2), [Decision \(EU\) 2016/948](#) of the European Central Bank on the implementation of the corporate sector purchase programme (ECB/2020/18).

<sup>6</sup> Article 1, [Decision 2020/441](#) of the European Central Bank of 24 March 2020 amending Decision (EU) 2016/948 of the European Central Bank on the implementation of the corporate sector purchase programme (ECB/2020/18).

<sup>7</sup> The others are Nationale Bank van België/Banque Nationale de Belgique, the Deutsche Bundesbank, the Banco de España, the Banca d'Italia and Suomen Pankki – Finlands Bank; Q4, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).

<sup>8</sup> Source: l'Association Française des Trésoriers d'Entreprise.

<sup>9</sup> Source: l'Association Française des Trésoriers d'Entreprise.

<sup>10</sup> Q14 and 15, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).

<sup>11</sup> Source: l'Association Française des Trésoriers d'Entreprise.

The eligibility criteria are complex and are set out in a patchwork of European legislation.<sup>12</sup> Below is a summary of the key criteria to be respected in the context of Neu CP issuances:

<p><b>An issuer must:</b></p>	<ul style="list-style-type: none"> <li>• be incorporated in a Member State whose currency is the euro;</li> <li>• not be: (i) a "credit institution"; (ii) a "supervised entity" (as defined in Regulation (EU) No 468/2014) or a member of a "supervised group", in each case contained in the list published by the ECB on its website. It must not be a subsidiary of any of those supervised entities or supervised groups; (iii) an "investment firm"; (iv) a national asset management and divestment fund established to support financial sector restructuring and/or resolution; or (v) an eligible issuer for the public sector asset purchase programme;</li> <li>• not have: (i) a parent undertaking that is a "credit institution"; or (ii) a parent company which is subject to banking supervision outside the euro area;</li> <li>• not be an entity, whether publicly or privately owned, that: (i) has as its main purpose the gradual divestment of its assets and the cessation of its business; or (ii) is an asset management vehicle resulting from a resolution action in the form of the application of an asset separation tool; and</li> <li>• not have issued: (i) an asset-backed security, (ii) a <i>multi cédula</i>, or (iii) a structured covered bond.<sup>13</sup></li> </ul>
<p><b>The Neu CP must:</b></p>	<ul style="list-style-type: none"> <li>• be denominated in euro;</li> <li>• be issued by a corporation incorporated in the euro area. Issuers must be euro area residents; the location of incorporation of the issuer's ultimate parent is not taken into consideration;<sup>14</sup></li> <li>• have a minimum remaining maturity of 28 days at the time of its purchase by the Banque de France and a maximum maturity of 365/366 days;</li> <li>• comply with the eligibility criteria for marketable assets for Eurosystem credit operations, in particular the Neu CP must be senior and unsubordinated and not be redeemable below</li> </ul>

<sup>12</sup> [Decision \(EU\) 2015/510](#) (implementing Guideline ECB/2014/60) covers the collateral eligibility criteria and [Decision \(EU\) 2016/948](#) (implementing ECB 2016/16) cover the CSPP, as amended by [Decisions \(EU\) 2020/440](#) and [2020/441](#).

<sup>13</sup> Article 2(1), [Decision \(EU\) 2016/948](#) of the European Central Bank on the implementation of the corporate sector purchase programme.

<sup>14</sup> Q1.8, [CSPP – Questions & Answers](#) (as of 8 April 2020).

	<p>par. The Neu CP market constitutes an authorised non-regulated market accepted by the ECB; and</p> <ul style="list-style-type: none"> <li>• be issued in a minimum amount of €10 million (or, in the case of secondary market purchases, have such amount outstanding).<sup>15</sup></li> </ul> <p><i>Note that a STEP label is not required for Neu CP to be eligible for the PEPP, given that the Neu CP issued by non-financial issuers (formerly billets de trésorerie) is an approved non-regulated market.<sup>16</sup></i></p> <p><i>In addition, note that Neu CP with a negative yield are eligible.<sup>17</sup></i></p>
<p><b>Credit assessment:</b></p>	<ul style="list-style-type: none"> <li>• only credit assessment information provided by an external credit assessment institution accepted within the Eurosystem credit assessment framework (e.g. Standard &amp; Poor's, Moody's, Fitch and DBRS Morningstar) will be taken into account for the assessment of the credit quality requirements of the marketable debt instrument; and</li> <li>• any of the issuer, the guarantor (if any) or the Neu CP itself must be investment grade (e.g. A-2, P2, F3 for Standard &amp; Poor's, Moody's and Fitch Ratings respectively). The programme rating is not accepted as evidence of sufficient credit quality.</li> </ul> <p><i>Note that in their <a href="#">press release</a> of 22 April 2022, the ECB announced that assets and issuers that were investment grade on 7 April 2020 would remain eligible even if their rating subsequently fell up to two notches below the requirements described above. Their intention is to provide support to 'fallen angels' who may have suffered credit rating downgrades since, and in part due to, the onset of the Covid-19 crisis.</i></p>

Once the Banque de France has decided upon the eligibility of an issuer and its Neu CP, it will confirm to the relevant Dealer how much Neu CP it is willing to subscribe to. There are undefined limits on the amount of commercial paper that the Eurosystem will purchase from each issuer.<sup>18</sup>

The ECB will not be publishing a list of the commercial paper securities, including Neu CP, that it holds and thus the identity of issuers who have taken advantage of the PEPP will remain anonymous.<sup>19</sup> It will however publish the

<sup>15</sup> Q6, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).  
<sup>16</sup> Q13, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).  
<sup>17</sup> Article 2(5), [Decision \(EU\) 2016/948](#) of the European Central Bank on the implementation of the corporate sector purchase programme.  
<sup>18</sup> Q11, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).  
<sup>19</sup> Q11, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).

aggregate book value of securities held under the PEPP and the monthly net purchases, as well as the cumulative net purchases.<sup>20</sup>

If ever an issuer's Neu CP loses CSPP eligibility, for example following an issuer credit rating downgrade below the credit quality rating requirement, there are no repercussions for the issuer but the Eurosystem may choose to sell its holdings.<sup>21</sup>

Our understanding is that the process can take one to two weeks from start to finish, provided that the issuer already has a Neu CP programme in place, though much will depend on the individual circumstances of the issuer in question, the features of the Neu CP it is proposing to issue and the level of activity of the Banque de France at the relevant time.

In addition to the PEPP, European corporates with a material activity in the United Kingdom have also been able to benefit from the Bank of England's Covid-19 corporate financing facility and those with significant activity in the US are eligible to benefit from various US facilities, including the CARES Act initiatives. For more information on these initiatives, please see the following articles:

- [Coronavirus: Debt Capital Markets facilities to support UK and EEA companies](#)
- [Coronavirus: The Economic Stabilization Provisions of the Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#)
- [Coronavirus: The US CARES Act and the Main Street Lending Program](#)
- [Coronavirus Update: U.S. Federal Reserve Broadens New Term Asset-Backed Securities Loan Facility](#)

<sup>20</sup> Q14, [Pandemic emergency purchase programme \(PEPP\) Questions & Answers](#) (as of 2 April 2020).

<sup>21</sup> Q10, [FAQ on CSPP and non-financial commercial paper](#) (as of 14 April 2020).

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