For the sake of readability, excerpts of ECB Executive Board's proposals relating to the conclusion of swap agreements are complied. Parts which were considered not relevant were redacted and indicated with "[…]".

23 November 2011

THE EXECUTIVE BOARD

PROPOSALS REGARDING THE CURRENT SWAP LINE WITH THE FED AND REGARDING POTENTIAL SWAP LINES AMONG MAJOR CENTRAL BANKS

Expansion of central bank facilities to other currencies

The idea of having a network of permanent reciprocal swap lines among the major central banks was already informally raised by the Fed at the end of 2009.

At this stage, the central banks do not consider that there is a clear market need to expand the network of reciprocal central bank swap lines to other currencies. The benefit of such a framework would signal central bank cooperation. If it was decided to set it up, experts agreed that it would not be necessary to announce the pricing modalities of the swap lines. This would also allow more flexibility to react to changing market conditions until the lines would be effectively used.

Having a network of reciprocal swap lines in place while not conducting operations at this stage would strike a balance between setting the signal that funding tensions are not only a euro area issue and that there is central bank coordinated action on one side vs the operational burden of conducting unused facilities.

As regards the pricing of such facilities: there was an agreement that one could at this stage define a default rate that would mimic the new pricing of USD operations (i.e. OIS+50 bps) or apply the 50 bps margin to the policy rate when more appropriate (which would be the case for the ECB given that OIS rates are at the moment well below policy rates). This would ensure that funding abroad would not be cheaper abroad than at the home central bank.

In summary, the tentatively discussed proposals are as follows:

- Cutting the pricing of the USD by 50 bps and continuing three-month operations in addition to 1-week operations.
- Standing ready to sign reciprocal swap lines in various currencies if central banks want to signal cooperation;
- Further reflecting on the possible modalities of operations under new swap lines (amounts, form, pricing and activation) while not disclosing the currently proposed default prices;
- A joint communication of all measures.

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The *Governing Council* is invited to

(a) confirm the decision of 25 October 2011 to reduce the pricing of the USD-providing operations to OIS+50bp for all tenors, subject to a corresponding decision taken by the Fed and the five other major central banks with which the Fed has a USD swap line;

(b) decide in principle to prolong the swap agreement with the Fed until 1 February 2013, subject to a corresponding decision taken by the Fed and the other central banks;

(c) decide to make the preparation of reciprocal swap agreements between the ECB and the Federal Reserve, the Bank of Japan, the Bank of England, the Swiss National Bank and possibly the Bank of Canada, conditional to the request of one or more central banks;

(d) decide to communicate jointly on the changes described in (a), (b) and, if relevant, on the existence of the framework described in (c), but at this stage not its the specific modalities;

(e) […].

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THE EXECUTIVE BOARD

3 February 2009

PROVISION OF EURO TO THE FEDERAL RESERVE THROUGH A SWAP LINE

After Monday 19 January 2009, which was a US holiday, the Federal Reserve approached the Bank of Japan, the Bank of England, the Swiss National Bank and the ECB with a proposal to set up arrangements which would allow it to lend, in case of need, one of these central bank's currency to one of its counterparties, against Federal Reserve-eligible collateral. This would make it easier for the Federal Reserve to deal with a possible funding liquidity problem which could be faced by a US bank on a US holiday. On a US holiday, as Fed Wire is closed, the Federal Reserve cannot lend US dollars to its counterparties. By contrast, on days when the Federal Reserve can lend US dollar to US banks, it is likely that US banks can obtain Japanese yen, pound sterling or euro through the foreign exchange swap market or the foreign exchange market.

[…]

The Federal Reserve indicated that it would be desirable to finalise possible arrangements between the Federal Reserve and the ECB by the next US holiday, which is on 16 February 2009.

Conceptually, the proposal would mean that the existing swap agreement between the Federal Reserve and the ECB would be made symmetrical, such that the ECB would continue to be able to draw US dollars against euro from the Federal Reserve, while the Federal Reserve would be able to use the euro received from the ECB for lending to its counterparties.

If it is decided to accept the proposal of the Federal Reserve to provide it with euro by means of swaps,, the following parameters should be set:

- Duration of the symmetric swap agreements: it is suggested to apply the same duration as in the existing swap agreements (e.g. end-April, soon to be extended to end-October, in the case of the existing swap agreement between the Federal Reserve and the ECB);
- Maturity of drawings: it is suggested to consider drawings with overnight to one-week maturity as default, considering that (i) there is a need to align the maturity dates with the first business day of the recipient central bank and (ii) the maturity should be the shortest possible, because the operations would be akin to liquidity assistance operations.
- Maximum total cumulated amount of drawings: it is suggested to reciprocate the unlimited amount for the existing swap agreement with the Federal Reserve.
- Remuneration rate: it is suggested to require, for the time being, a remuneration from the FED equal to the prevailing rate on the ECB's main refinancing operations. Moreover, taking into account the fact that the operations would be akin to liquidity assistance operations, it is suggested, for consistency reasons, to suggest to the Federal Reserve to apply a rate to its counterparties no less than the prevailing rate on the ECB's marginal lending facility plus a margin, which would currently be taken equal to 100 basis points. It should be noted that this

ECB-PUBLIC

advice on remuneration payable by the Federal Reserve's counterparties may be revised at a later stage, in particular if the operations were to become more regular (as opposed to exceptional), or larger, over time.

- Risk control measures: it is suggested to apply no further risk control measure with the Federal Reserve beyond the requirement that it deposits a corresponding amount of US dollar on an ECB account. This would be consistent with the approach followed by the ECB so far in the case of swap agreements with the Federal Reserve. Moreover, it is likely that the Federal Reserve would consider applying, in addition to its usual haircut schedule, an add-on for foreign exchange rate risk when on-lending euro to its counterparties.
- Transmission of euro to market counterparties: If the Federal Reserve were to ask the ECB to act as its agent, the ECB, or the relevant NCB, would transfer the euro amounts to the indicated market counterparty of the Federal Reserve. In this regard the ECB will debit the Federal Reserve's euro account with the ECB on which the euro swap proceeds are received and transfer funds to the accounts of the market counterparty as instructed by the FED.
- Communication: it is suggested communicating the existence of the swap agreements and the fact that they were made symmetrical, but not any instance of individual drawings under the swap agreements.

The *Governing Council* is invited to:

(a) decide whether to allow the ECB to lend euro against US dollars to the Federal Reserve upon request and by means of swaps, as from 16 February 2009;

(b) take note of the following parameters for such operations, as set out above: duration of the symmetric swap agreements; maturity of drawings; maximum total cumulated amount of drawings; remuneration rate; risk control measures; transmission of euro to market counterparties; and communication;

(c) […]

(d) take note that a press release may be issued at a date yet to be determined, but which is likely to be before 16 February 2009.

ECB-PUBLIC

11 December 2007

THE EXECUTIVE BOARD

PROVISION OF US DOLLAR FUNDING TO EUROSYSTEM COUNTERPARTIES

[…]

The Federal Reserve is willing to embark in a joint action with the ECB whereby the latter would offer US dollar funding to Eurosystem counterparties in a co-ordinated manner. The Swiss National Bank would go along with the supply of dollars to Swiss counterparties. Other central banks, namely the Bank of Canada and the Bank of England, will participate in announcing that they will offer term financing respectively in Canadian dollar and in sterling. The Bank of Japan will also issue a short communiqué whilst not deciding any particular action.

2. Swap agreement

A swap agreement between the Federal Reserve and the ECB would enable the ECB to receive from the Federal Reserve the amount of US dollar which would then be provided to Eurosystem counterparties through the NCBs.

The Governing Council is invited to:

- ***[…]***
- ***decide to carry out the joint US dollar funding operations with the Federal Reserve System;***
- ***[…]***
- ***[…]***

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THE EXECUTIVE BOARD 16 OCTOBER 2013

ESTABLISHMENT OF A NETWORK OF STANDING SWAP AGREEMENTS

[…]

4. Main features of the standing swap agreements

A new network of standing swap arrangements is intended to replace the current arrangement requiring prolongation of the swap lines on an annual basis. Instead, the new swap agreements would take the form of an uncapped standing swap line with the option to terminate the agreement. The network of standing swap arrangements would eliminate the need for renewal of the current arrangement on an annual basis, thus reducing the operational burden on all the central banks. Even more so, it would limit unnecessary press attention on the occasion of the annual expiry and renewal of the swap lines and would help to reinforce market expectations about the commitment of the central banks to provide backstop facilities in case of market tensions. The danger of moral hazard on the side of banks can be addressed by the decisions and related communication regarding whether and at what conditions to offer operations to banks.

Changes in the usage of the standing swap lines, such as the introduction of new tender operations by one party of the agreement will be linked to prior information and discussion with the other party, which is in line with the current arrangement. This principle will apply equally to all parties and for all currencies of the standing swap network.

The new standing swap agreements are intended to come into effect with the expiration of the current network of swap agreements, i.e. 1 February 2014.

[…]

7. Proposal on USD-providing operations

The absence of the demand in the ECB USD liquidity providing operations with a 7-day maturity and improved market funding conditions in USD, would speak in favour of discontinuing the 7-day USD providing operations when the current agreement expires at the end of January. The 84-day USD providing operations would, however, remain in place and be conducted on a monthly basis at least until and including January 2015. In its communication, the ECB would reassure market participants that the ECB would consider reintroducing 7-day operations if warranted by market developments. A proposal with this regard will be submitted to decision making bodies for approval in January 2014 at the latest.

The *Governing Council* is invited to:

(a) approve the establishment of a standing swap agreements with the Bank of Canada, the Bank of England, the Bank of Japan, the Federal Reserve and the Swiss National Bank;

ECB-PUBLIC

(b) subject to (a) approve the initial pricing of drawings under the standing swap agreements in line with the pricing of the expiring swap agreements;

(c) […]

(d) […]

ECB-PUBLIC

7 December 2010

THE EXECUTIVE BOARD

ECB SWAP AGREEMENTS WITH THE BOE AND THE CBI AND OPERATIONAL READINESS TO TRANSACT

[…]

The two draft agreements established for this purpose are inspired by existing agreements and the main elements of the new draft agreement with the Bank of England are:

1) Amount: the BoE is ready to enter into a swap agreement of a size that would allow covering the needs of the Irish banks. An amount between GBP 10 and 20 billion has been discussed at management level on the basis of data provided by the CBI. Under the assumption that both the ECB and the BoE have an interest in limiting the amount, the proposal is made to limit the agreement initially to GBP 10 bn. This reflects the fact that – while Irish banks might have to cover around GBP 12 billion of sterling needs by the end of the year, the agreement is intended to provide a back stop in case Irish banks can no longer roll over existing EURGBP swaps. If needed, an increase could be later considered.

2) Termination date: the BoE would be confident with an agreement with a maturity not exceeding 12 months. An initial maturity until end-September 2011 would be foreseen.

3) Additional terms and conditions: the individual swap transactions should not exceed a maturity of 30 days and not go beyond the BoE's end-of-maintenance periods. Interest on all GBP outstanding amounts will be charged at the Official Bank Rate set by the BoE's Monetary Policy Committee. Based on the agreed EUR/GBP rate, the BoE will be credited for the corresponding amount in EUR on its account at the ECB. During the time of the transaction, the EUR amount to be credited to the BoE will be held on an account opened at the ECB in the name of the BoE and will not be remunerated. The EUR amount between the ECB and the CBI will be exchanged via TARGET2 and will not be remunerated either.

The ECB will transact with the BoE on request of the CBI, and enter into back-to-back transactions with the CBI at identical interest and exchange rates. The CBI is expected to price its lending of GBP to Irish banks as a "back stop" facility, applying an adequate spread to the above-mentioned interest rate applied by the BoE (Official Bank Rate set by the BoE's Monetary Policy Committee).

In line with other agreements of this kind, the BoE will have to approve each drawing under the ECB/BoE swap agreement, and the ECB will have to approve each drawing under the ECB/CBI swap agreement, on a transaction by transaction basis.

ECB-PUBLIC

There is a common understanding that the swap agreements will be used to address GBP needs of Irish credit institutions only. It is recommended that, in the agreement with the BoE, no reference is made to the separate swap agreement between the ECB and the CBI. The equality of treatment principle requires that, even though there is only at present an economic justification to support Ireland, the ECB/BOE agreement should be drafted in such a way that it can, if it would turn out as necessary in the future, be used to supply GBP to other euro area NCBs. In this regard, it is important to stress that, even if the ECB/BOE agreement is silent on the fact that GBP is intended to be used only for CBI, there is nothing preventing the Governing Council from deciding such limitation.

[…]

Finally, and as regards the timing of transactions: it seems necessary – for precautionary reasons – to have the agreements in place before 9 December 2010 given that under the prevailing market conditions, the funding situation of Irish banks could deteriorate rapidly .

The *Governing Council* is invited to:

(a) decide that the ECB enters into separate swap agreements with the BoE and the CBI in order to address GBP needs of Irish credit institutions;

(b) approve the proposed terms of the agreements, in particular:

- **amount: initially GBP 10 billion;**
- **starting date: as soon as possible;**
- **termination date: end-September 2011;**
- **additional terms and conditions:**
    - **individual swap transactions should not exceed a maturity of 30 days and not go beyond the next BoE's end of maintenance period,**
    - **interest on all GBP outstanding amounts will be charged at the Official Bank Rate set by the BoE's Monetary Policy Committee, EUR deposits will not be remunerated; the CBI will apply a spread to the interest to be paid to the BoE to price sterling funding to Irish banks as a back-stop facility;**
    - **the ECB will transact with the BoE on request of the CBI, and enter into back-to-back transactions with the CBI at identical interest and exchange rates;**
    - **the BoE will have to approve each drawing under the ECB/BoE swap agreement, and the ECB will have to approve each drawing under the ECB/CBI swap agreement, on a transaction by transaction basis;**
    - **in the agreement with the BoE, no reference will be made to the separate swap agreement between the ECB and the CBI;**

(c) […]

ECB-PUBLIC

22 January 2003

THE EXECUTIVE BOARD

EURO-SWISS FRANC SWAP AGREEMENT BETWEEN THE ECB AND THE SWISS NATIONAL BANK

[...]

Under the terms of the proposed agreement, a standing arrangement would be put in place, whereby the ECB would sell EUR against CHF to the SNB by means of a spot transaction, with a simultaneous agreement to sell CHF against EUR on the maturity date of such swap transaction. The aggregate outstanding value of transactions executed under the agreement is limited to a total of EUR 10 billion at any given time. Any transaction conducted under the agreement would be subject to the prior approval of the ECB, with the agreement itself remaining effective until such time as it is specifically terminated by either party. The agreement would require the opening of a CHF account with the SNB in the name of the ECB. This account would be used solely in connection with operations executed under the agreement. When executing a transaction under the proposed agreement, the ECB and the SNB would agree on an exchange rate based on the prevailing market spot rate. This rate would be applied on both the spot and the forward leg of the transaction. While there will be no interest to be paid by the ECB on the CHF part of the transaction, provided that the ECB holds the amount on the ECB account with SNB, the latter would have to remunerate the ECB on the EUR leg at the EURIBOR of the corresponding maturity.

[…]

Although a swap transaction executed with the SNB under the agreement would differ somewhat from a "standard" foreign exchange swap, where the interest rate differentials are expressed in the forward rate, it is financially equal to such a “standard” swap. The financial impact for the ECB, therefore, is the same as that of an ordinary credit transaction, as the ECB de facto gives a collateralised EUR loan, where the CHF amount represents the collateral.

The signing of a standing swap agreement with the SNB would not create a precedent given its special characteristics and, in particular, the fact that it is intended to provide EUR to the SNB, with the understanding that the ECB would not use it to obtain CHF. Indeed, this swap agreement would confirm that the ECB enters into swap agreements only for special purposes and not for generic “co-operation” reasons.

[...]

Taking the perspective of monetary policy implementation in the euro area, the liquidity effects of an actual drawing under the swap agreement needs to be considered. Since the agreement would be rarely used, as it applies in exceptional circumstances only, and since the first leg of the swap is a spot transaction with value date at T + 2, the implied liquidity effects could normally be managed in an

ECB-PUBLIC

orderly way. In addition, to minimise any negative impact, it will be endeavoured to avoid to execute swap transactions after the last main refinancing operation of a given maintenance period. As such, it can be concluded that the proposed swap agreement does not create substantial monetary policy issues.

The effect of the arrangement on the balance sheet of the ECB would be similar to that of other swap arrangements executed in the past. As long as the arrangement is not activated, there would be no impact for the ECB balance sheet and no requirement to record the arrangement as an off-balance sheet item. In the case of a drawing under the arrangement, however, the ECB's foreign reserve holdings, as recorded in the balance sheet, would increase and the net claims within the Eurosystem would be impacted by the spot leg of the EUR side of the transaction. The forward leg would be recorded off balance sheet.

The credit risk attached to this agreement is negligible given the two parties to the contract and the collateralised nature of the operation. In addition, settlement will be performed via central bank accounts, implying that settlement risk is more or less absent. The only area of risk outstanding, therefore, is the operational risk in the actual execution and further processing of the swap transactions themselves, although the level of risk in this respect is inherent to all such financial transactions.

The attached agreement also makes reference to the approach to be taken with respect to any external communication, specifying that both parties should agree to co-ordinate the dissemination of any information to the general public regarding the entry into the agreement or the entry into any swap transactions under the agreement. In the event that any external communication might be required, the following has been agreed with the SNB: "*In order to facilitate the orderly functioning of financial markets and provide liquidity in euro to counter potentially disturbed conditions, the Swiss National Bank (SNB) has drawn on a swap facility established with the European Central Bank (ECB). This transaction was executed under a standing arrangement between the SNB and the ECB and is consistent with past co-operation and mutual assistance between central banks.*"

The *Governing Council* is invited to take note of:

(a) the conclusion of a swap agreement between the ECB and the Swiss National Bank;

(b) the draft agreement as attached.

ECB-PUBLIC