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TENDER PROCEDURE FOR THE PROVISION OF US DOLLARS TO EUROSYSTEM COUNTERPARTIES THROUGH OVERNIGHT OPERATIONS

Following a decision by the ECB's Governing Council, the Eurosystem central banks will conduct operations with the following characteristics.

Type: Provision of US dollar overnight funding to Eurosystem counterparties against ECB-eligible collateral as set out in Chapter 6 of the General Documentation on Eurosystem monetary policy instruments and procedures¹ (the 'GD'), in accordance with the procedures set out for long term refinancing operations, in particular in sections 3.1.3 and Chapter 5 of the GD with the deviations contained in this statement of tender procedure:

Intended volume: Up to USD 40 billion

Type of auction: Variable rate tender

Method of allotment: Single rate (Dutch auction): The allotment interest rate applied for all satisfied bids is equal to the marginal interest rate (i.e. that at which the total allotment amount is exhausted)

Auction details: Counterparties may submit bids for up to two different interest rate levels. In each bid, the counterparties must state the amount and the respective interest rate. The interest rates bid must be expressed as multiple of 0.01 percentage point.

The minimum bid amount is equal to USD 5 million for each bid; the total cumulated maximum bid amount of all bids submitted by an individual bidder is equal to 10% of the intended volume. The publication of the announcement of the tender and the allotment will take place on wire services.

Eligible counterparties: In the euro area, all institutions which are eligible for the ECB's marginal lending facility and which have provided their US dollar standard settlement instructions (SSIs) and a Statement of Acknowledgement (specified below) to their respective national central bank (NCB) in advance of the bid submission are deemed eligible.

¹ Annex I of Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem (OJ L 310, 11.12.2000, p. 1) Guideline as last amended by Guideline ECB/2007/10 (OJ L 284, 30.10.2007, p. 34).

Risk control measures: In the euro area, the usual haircuts as defined in Section 6.4 of the GD will be applied and in addition an initial margin of 10% will be applied to cater for foreign exchange rate risk. The euro value of the USD liquidity provided will be computed once, on the allotment date, using the last available ECB reference rate (usually the ECB reference rate of the previous ECB business day). The initial margin therefore caters for the foreign exchange risk to which the Eurosystem will be exposed for the overnight duration of the operation and for the expected time required to liquidate assets in case of the default of a counterparty.

For background information on risk control measures please refer to the Annex to this note.

Settlement details: Similar to the settlement of other Eurosystem credit operations, there must be a delivery of euro-denominated collateral by the counterparty in advance of the provision of credit by the NCB. On the settlement date, market counterparties are required to deliver eligible euro-denominated collateral to their local NCB by 15:00 CET/CEST; on receipt of such collateral, the NCB will submit the corresponding US dollar payment instruction to the Federal Reserve Bank of New York (FRBNY) as soon as possible thereafter and ideally before 20:00 CET/CEST on the settlement date. On the maturity date, market counterparties are required to pay back US dollar funds to the accounts of NCBs at the FRBNY by 16:00 CET/CEST. Market counterparties are advised that in case US dollar funds are repaid after 16:00 CET/CEST, the respective NCB cannot guarantee return of euro-denominated collateral on the maturity date but will aim to do so on a 'best effort' basis.

Legal requirements: The operations set out in this note will take place in principle using existing legal documentation between the respective NCB and its eligible market counterparties. If certain NCB amendments are needed to such legal documentation, the NCBs will implement such amendments for the purposes of such operations.

Market counterparties wishing to participate in any US dollar tender are required, before bidding, to provide to their respective NCB their US dollar SSIs and a Statement of Acknowledgement. In such Statement of Acknowledgement, market counterparties are required to explicitly acknowledge – as a condition of their participation in the tender –

- that they are bound by the conditions of the tender set out in this note and communicated in the tender announcement; and

- the applicability of existing legal documentation between the counterparty and the NCB to the operation in question (unless amendment of the legal documentation is necessary).

The provision of US dollar SSIs by market counterparties to their respective NCB should be effected via SWIFT. The Statement of Acknowledgement may similarly be communicated via SWIFT or in another form as required by applicable national laws.

In the event of non-compliance by a counterparty with the requirements set out in this document, the procedures and sanctions set out in Annex 6 of the GD will be applicable.

Monitoring:

Going forward, the Bank of England, the European Central Bank, the Swiss National Bank and the Federal Reserve will re-assess the effectiveness of these overnight funding operations, and reserve the right to adjust auction sizes consistent with evolving market conditions. Effectiveness will be judged by reference to both the scale of bids and the clearing price, for example if tender rates were consistently below a level of 50 basis points over the target U.S. Federal Funds rate then the scale of the auctions would likely be reduced.

ANNEX:

BACKGROUND INFORMATION ON THE METHODOLOGY APPLIED TO DEFINE THE FOREIGN EXCHANGE ADD-ON MARGIN TO BE APPLIED TO EURO COLLATERAL UNDERLYING US DOLLAR LIQUIDITY PROVISION

Collateral assets underlying Eurosystem credit operations are subject to risk control measures. These risk control measures are applied to protect the Eurosystem against the risk of financial loss if the collateral has to be realised owing to the default of a counterparty. For US dollar liquidity backed by euro denominated collateral, the Eurosystem incurs a foreign exchange rate (FX) risk relating to possible movements in the US dollar exchange rate, in addition to the risk of change in value of the euro denominated collateral.

The FX risk is catered for by adding an initial margin computed on the amount of the US dollar liquidity provided. The euro value of the liquidity provided in US dollars is computed on the allotment day using the last available ECB reference rate (usually the ECB reference rate of the previous ECB business day) and is frozen for the duration of the operation.

To obtain an adequate level of risk control for this FX risk in line with best market practices, first the volatility of the EUR/USD exchange rate is estimated for the relevant period. Then, Value at Risk (VaR) is estimated on the basis of the initial margin needed to reflect the maximum loss of market value due to adverse movements in the exchange rate with a given level of statistical confidence over the relevant period. The length of this period corresponds to the duration of the operation plus the time expected to be required for the liquidation of the assets in case of default by a counterparty.