

THE EXECUTIVE BOARD

14 October 2008 CONFIDENTIAL

PROVISION OF 1-WEEK SWISS FRANC LIQUIDITY TO EUROSYSTEM COUNTERPARTIES

In the current critical market conditions several euro area banks, , are apparently finding it difficult to secure their liquidity need in Swiss francs.

Against this background, the Swiss National Bank (SNB) offered the ECB to participate on behalf of euro area banks in a series of 1-week EUR/CHF FX swap operations that it intends to conduct until end-January 2009. In these operations the ECB would receive CHF that it would lend through an FX swap to NCBs, who in turn would lend the CHF through and FX swap to eligible counterparties. These operations would be similar to those currently conducted with the Federal Reserve except of the fact that they are conducted as FX swaps and they would also be open to the SNB's own counterparties, as well as to the counterparties participating through the Eurosystem. Note that the SNB does not exclude to receive similar requests from other non-euro area central banks of the European Union, in particular from those in central Europe, once the agreement between the SNB and the ECB is made public. In this case it would need to be decided, in co-operation with the SNB, whether these (central) banks could also participate via the ECB, which would be by far the option preferred by the SNB, or whether they would need to sign a separate swap agreement with the SNB.

The idea would be to have a fixed rate tender (in FX swap points derived from applying the ECB main refinancing rate for the EUR leg and the SNB's 1-week repo rate +25 basis points for the CHF leg) with full allotment. The tentative timing for these operations is every Monday between 9:00 a.m. (announcement) and 11:30 a.m. (publication of results) with settlement on a T+2 basis (i.e. normally on Wednesday).

CONFIDENTIAL

From a settlement perspective, it is noted that there may be a need for some Eurosystem central banks to open CHF cash accounts with the SNB. In addition, eligible Eurosystem counterparties intending to participate to such operation would have to provide their local NCB with their respective standard settlement instructions for receipt of CHF in advance of the operation. To avoid undue risk for the Eurosystem and in line with the general procedure applied for Eurosystem credit operations (including USD liquidity provision), it is suggested that the EUR/CHF operation be settled on a payment-after-payment basis at the level of Eurosystem NCBs and market counterparties. Such an approach implies that market counterparties would credit the EUR amount due to their respective NCB in advance of such NCB transferring the related CHF.

The FX swaps between the ECB and the SNB would be based on the existing *"Euro-Swiss Franc Swap Agreement"* which would only need some smaller amendments

In case the Governing Council approves these CHF providing operations, the SNB and the ECB would need to draft a common press release to be published by Friday, 17 October 2008 at the latest for the first EUR/CHF transaction to be conducted on Monday, 20 October 2008.

The Governing Council is invited to:

a) decide whether

- (i.) to offer CHF liquidity providing foreign exchange swaps to Eurosystem counterparties;
- (ii.) to also provide access to non euro area central banks from the European Union to this swap transactions (always in the form of swaps of euros against Swiss francs);

;

- b) approve
 - (i.) the SNB's request to place the
 - (ii.) that there is no need for additional risk control measures;
- c) delegate to the Executive Board
 - (i.) the finalisation of the swap agreement with the Swiss National Bank;
 - (ii.) the adoption of the Guideline relating to these foreign exchange swap transactions, which will include the tender procedures and any other implementation issue;
- (d) take note that, upon Governing Council approval of the proposal, the CHF liquidity providing operations would be announced via a common press release at the latest for the first EUR/CHF transaction to be conducted on Monday, 20 October 2008.