



EUROPEAN CENTRAL BANK

EUROSYSTEM

31 October 2017

TENDER PROCEDURE FOR THE PROVISION OF US DOLLARS TO EUROSYSTEM COUNTERPARTIES

Following a decision by the Governing Council, the Eurosystem national central banks (NCBs) will conduct operations with the following characteristics.

- Type: The provision of US dollar (USD) funding to Eurosystem counterparties against collateral that is eligible for Eurosystem monetary policy operations as set out in the applicable legal framework (hereinafter 'eligible collateral'), in accordance with the procedures set out in Article 8 and Title III and Part Two of Guideline (EU) 2015/510 (ECB/2014/60) with the deviations contained in this statement of tender procedure.
- Settlement date: The settlement date will be indicated in the announcement of each operation and will usually be on the first or second business day following each operation's announcement and allotment.
- Maturity: The exact maturity will be indicated in the announcement of each operation.
- Type of auction: The auction type will be fixed rate tender and will be communicated in the announcement of each operation.
- Auction details : A fixed rate tender will be communicated in the announcement of each operation. The minimum bid amount is equal to USD 5 million. Bids exceeding this amount must be expressed as multiples of USD 0.1 million. The ECB should publicly announce the tender procedures and the tender allotment decision with respect to the tender results. In addition, the NCBs, if they deem it necessary, may announce the tender procedures and the ECB's tender allotment decision publicly and directly to counterparties.
- Maximum amount : No maximum will be applied and the European Central Bank (ECB) will satisfy all bids received, i.e. full allotment.
- Eligible counterparties: All institutions that are eligible for the ECB's marginal lending facility and have provided their US dollar standard settlement instructions (SSIs) and a statement of acknowledgement (specified below) to their respective NCB in advance of the bid submission are deemed eligible.
- Risk control measures: The usual risk control measures as defined in Title VI of Guideline (EU) 2015/510 (ECB/2014/60) and Guideline (EU) 2016/65 (ECB/2015/35) will be applied. In addition, unless another percentage is indicated in the tender

announcement for the relevant operation, a margin of 12% will be applied to cater for foreign exchange rate risk.

The euro value of the US dollar liquidity provided will initially be computed, on the allotment date, using the rate for EUR/USD that will be communicated in the tender announcement. For US dollar liquidity-providing operations with an initial maturity of more than eight calendar days, the EUR/USD exchange rate applied will be updated on a weekly basis, with the first update to be effected one week after the settlement day. The exchange rate applied to weekly updates is the official EUR/USD exchange reference rate as fixed and published by the ECB on the day prior to the weekly update. The collateral position will therefore be subject to weekly revaluations due to movements in the exchange rate which may trigger margin calls. It will also be subject to the normal daily mark-to-market valuation and variation margins applied to Eurosystem eligible collateral due to movements in the value in euro of the collateral. The margin therefore caters for the foreign exchange risk to which the Eurosystem will be exposed during the one-week period over which the exchange rate will remain fixed 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 Appendix to this Annex.

Settlement details:

Similarly to the settlement of other Eurosystem credit operations, there must be a delivery of eligible 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 collateral to their local NCB by 16.00 Central European Time¹ (CET). Possible changes to this rule will be communicated in the announcement of each operation. 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 hereafter and ideally before 20.00 CET 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. Market counterparties are advised that if US dollar funds are repaid after 16.00 CET, the respective NCB cannot guarantee return of eligible collateral on the maturity date but will aim to do so on a 'best efforts' basis.

¹ CET takes into account the change to Central European Summer Time.

Legal requirements: The operations set out in this statement of tender procedure 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 standard settlement instructions (SSIs) and a statement of acknowledgement. In the 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 statement of tender procedure and communicated in the tender announcement; and
- the applicability of existing legal documentation between the market 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.

Where a market counterparty does not comply with the requirements laid down in this document, the procedures and sanctions set out in Part Five of the Guideline (EU) 2015/510 (ECB/2014/60) will apply.

**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 eligible 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 collateral.

The FX risk is addressed by adding a margin calculated on the amount of the US dollar liquidity provided. The euro value of the liquidity provided in US dollars is initially calculated on the allotment date using the prevailing market spot exchange rate on the allotment date. For US dollar liquidity-providing operations with an initial maturity of more than eight calendar days, the EUR/USD exchange rate applied will be updated on a weekly basis, with the first update to be effected one week after the settlement day. The EUR/USD exchange rate applied to US dollar liquidity-providing operations is the official EUR/USD exchange reference rate as fixed and published by the ECB on the day prior to the weekly update.

To obtain an adequate level of risk control for this FX risk in line with best market practices risk measures are estimated on the basis of the margin needed to reflect the possible 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 one-week period over which the exchange rate will remain fixed plus the time expected to be required to liquidate the assets in case of default by a counterparty.