



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Markus Ferber  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 14 June 2019

L/MD/19/192

**Re: Your letter (QZ-080)**

Honourable Member of the European Parliament, dear Mr Ferber,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 17 December 2018.

The swap line between the ECB and the Bank of England (BoE) is part of a network of standing swap lines between the Bank of Canada, the BoE, the Bank of Japan, the ECB, the Federal Reserve and the Swiss National Bank, and has been in place in its current form since October 2013.<sup>1</sup> The status of the United Kingdom (UK) following its withdrawal from the EU will not affect the existing standing swap line with the BoE. The ECB may enter into a swap agreement with central banks outside the EU, as is the case with the above-mentioned standing swap lines with the Federal Reserve, the Bank of Canada, the Swiss National Bank and the Bank of Japan.

On 5 March 2019 it was announced that the ECB and the BoE had decided to activate their standing swap line for the provision of euro (EUR) liquidity to UK banks, with the BoE offering to lend EUR on a weekly

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<sup>1</sup> See "ECB establishes standing swap arrangements with other central banks", ECB press release, 31 October 2013, available at <https://www.ecb.europa.eu/press/pr/date/2013/html/pr131031.en.html>. This network of standing swap lines covers the following currencies: EUR, US dollars (USD), Japanese yen, GBP, Canadian dollars and Swiss francs. Only the swap line for the provision of USD liquidity is currently in use.

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basis.<sup>2</sup> Through these operations, the ECB receives pound sterling (GBP) in exchange for EUR. It should be emphasised that these operations are only available to UK banks, hence possible emergency liquidity provision to UK central counterparties (CCPs) is not covered by the precautionary activation of the swap line.

More generally, in March 2015 the ECB and the BoE extended the scope of their standing swap line as part of a series of measures to enhance financial stability.<sup>3</sup> This was done with a view to facilitating the provision of EUR and GBP liquidity support to CCPs established in the UK and the euro area respectively. On the basis of this decision, the scope of the standing swap line between the ECB and the BoE covers UK CCPs that are relevant for the Eurosystem from a financial stability perspective, i.e. which clear a significant volume of euro-denominated business.

The swap line does not constitute a pre-commitment from the ECB, hence the activation of the swap line in order to facilitate the provision of EUR liquidity support by the BoE to relevant UK CCPs is at the discretion of the Governing Council of the ECB. The ECB would not be the counterparty providing EUR directly to relevant UK CCPs. More generally, CCP liquidity risk management, in line with the statement by the Economic Consultative Committee of the Bank for International Settlements,<sup>4</sup> remains first and foremost the responsibility of the relevant CCPs themselves.

As part of the measures taken in 2015 to enhance financial stability, the ECB and the BoE also established arrangements for information exchange and cooperation in respect of UK CCPs with significant euro-denominated business, in accordance with the European Market Infrastructure Regulation (EMIR)<sup>5</sup> and the Principles for financial market infrastructures<sup>6</sup>. These enhanced arrangements include safeguards in relation to cooperation and information exchange for relevant UK CCPs that fall within the scope of the swap line between the ECB and the BoE. The relevant UK CCPs' inclusion in the scope of the swap line is not conditional per se on the UK's EU membership, but it is linked to the safeguards set out in those enhanced arrangements and their adequate implementation. The ECB and BoE may continue to exchange information and cooperate in respect of the relevant UK CCPs, as appropriate and necessary. The ECB also duly considers developments that may have an impact on the adequacy of those enhanced arrangements and

<sup>2</sup> See "ECB and Bank of England activate currency swap arrangement for possible provision of euro to UK banks", ECB press release, 5 March 2019, available at <https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.pr190305-be78defb5c.en.html>; and "Further enhancements to the Bank of England's liquidity insurance facilities", BoE press release, 5 March 2019, available at <https://www.bankofengland.co.uk/news/2019/march/further-enhancements-to-the-boes-liquidity-insurance-facilities>.

<sup>3</sup> See "European Central Bank and Bank of England announce measures to enhance financial stability in relation to centrally cleared markets in the EU", ECB press release, 29 March 2015, available at <https://www.ecb.europa.eu/press/pr/date/2015/html/pr150329.en.html>.

<sup>4</sup> In June 2012 international central banks announced that they "*are working towards a regime that ensures there are no technical obstacles for the timely provision of emergency liquidity assistance by central banks to solvent and viable CCPs, without pre-committing to the provision of this liquidity*". See the "Statement by the Economic Consultative Committee" in Appendix II of the FSB's third progress report on the implementation of OTC derivatives market reforms, 15 June 2012, available at [http://www.fsb.org/wp-content/uploads/r\\_120615.pdf](http://www.fsb.org/wp-content/uploads/r_120615.pdf).

<sup>5</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1).

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their implementation. Such developments include – but are not limited to – the applicable regulatory frameworks and related decisions, in particular regarding the equivalence of the regulatory frameworks of third countries for CCPs and the recognition of third-country CCPs under EMIR.

With regard to supervisory controls for relevant UK CCPs following Brexit, the European Commission's amended implementing decision<sup>7</sup> determines, for a limited period of time, that the regulatory framework applicable to CCPs in the UK is equivalent to the applicable EU supervisory framework, as laid down under EMIR. The amended implementing decision thus recognises that the BoE will continue to apply equivalent supervisory controls to relevant UK CCPs after the UK's withdrawal from the EU, even in the case of a "hard Brexit" scenario (i.e. no deal and no transition). This action of the European Commission made it possible for the European Securities and Markets Authority (ESMA) to recognise UK CCPs in a "hard Brexit" scenario.<sup>8</sup> The ECB has also prepared for the extension of the cooperation arrangements between the ECB and the BoE under a "hard-Brexit" scenario for the same, limited period of time, as envisaged by the European Commission's amended implementing decision. Owing to the discontinuation of certain EMIR obligations in terms of cooperation and information-sharing for UK CCPs under a "hard Brexit" scenario, the arrangements between the ECB and the BoE will be supplemented with additional elements in order to maintain an adequate level of cooperation and information.

Yours sincerely,

[signed]

Mario Draghi

<sup>6</sup> See Responsibility E of the Principles for financial market infrastructures published by the Committee on Payments and Market Infrastructures and the International Organisation of Securities Commissions on 16 April 2012, available at <https://www.bis.org/cpmi/publ/d101a.pdf>.

<sup>7</sup> Commission Implementing Decision (EU) 2018/2031 of 19 December 2018 determining, for a limited period of time, that the regulatory framework applicable to central counterparties in the United Kingdom of Great Britain and Northern Ireland is equivalent, in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council (OJ L 325, 20.12.2018, p. 50), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018D2031&from=EN>, and Commission Implementing Decision (EU) 2019/544 of 3 April 2019 amending Implementing Decision (EU) 2018/2031 (OJ L 95, 4.4.2019, p. 9), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0544&from=EN>.

<sup>8</sup> See "ESMA has adopted new recognition decisions for the three UK CCPs and the UK CSD in the event of a no-deal Brexit on 12 April", ESMA press release, 5 April 2019, available at <https://www.esma.europa.eu/press-news/esma-news/esma-has-adopted-new-recognition-decisions-three-uk-ccps-and-uk-csd-in-event-no>.

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