

DOCUMENTATION ON MONETARY POLICY INSTRUMENTS AND PROCEDURES

SUPPLEMENT

on the provision of liquidity in US dollar to counterparties

issued by the Central Bank of Ireland (the “Bank”) on 16 April 2018 with effect from 16 April 2018)

(the “Provision of Liquidity in US Dollar Supplement”)

This Supplement is supplemental to, and should be read in conjunction with, the Bank’s Documentation on Monetary Policy Instruments and Procedures issued on 16 April 2018, as the same may be amended, varied or further supplemented from time to time (the “MPIPs”).

All of the provisions of the MPIPs shall continue to apply unaltered unless otherwise provided for by this or any other Supplement. Terms defined in the MPIPs, unless the context otherwise requires, shall have the same meaning when used in this Supplement.

Article 1

Procedure for allocating the available US dollar liquidity

1. The Bank shall provide liquidity denominated in US dollar (‘US dollar liquidity’) to counterparties by means of collateralised transactions with counterparties in accordance with the tender procedures laid down in the Annex.
2. The Bank shall permit all counterparties that fulfil the necessary technical prerequisites laid down in the Annex for collateralised transactions with counterparties to submit requests for US dollar liquidity.
3. There is no guarantee that US dollar liquidity will be made available under the procedures laid down in the Annex and there is no obligation for the ECB and the Bank to provide such liquidity.

Article 2

Provision of US dollar liquidity via collateralised transactions with Counterparties

1. The Bank shall provide US dollar liquidity to counterparties on a fully collateralised basis. For such transactions the Bank shall only accept certain collateral that is eligible for Eurosystem monetary policy operations. The Bank shall inform counterparties which eligible collateral it will accept.

2. The provision of US dollar liquidity to counterparties shall be subject to conditions that are no more economically advantageous than those to which the Bank itself is subject, pursuant to the Annex to this Supplement.

Article 3

Principles for collateralised transactions with counterparties

The specific risk control measures that the Bank shall apply in respect of the relevant collateralised transactions with counterparties are set out in the Annex.

**TENDER PROCEDURE FOR THE PROVISION
OF US DOLLARS TO EUROSISTEM COUNTERPARTIES**

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

- Type:** The provision of US dollar (USD) funding to counterparties against acceptable collateral that is eligible for Eurosystem monetary policy operations as set out in the MPIPs (hereinafter ‘eligible collateral’), in accordance with the procedures set out in Article 8 and Title III of Part Two of the MPIPs 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 European Central Bank (ECB) should publicly announce the tender procedures and the tender allotment decision with respect to the tender results. In addition, the Bank, if it deems 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 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 the Bank in advance of the bid submission are deemed eligible.

Risk control measures: The usual risk control measures as defined in Title VI of Part Four of the MPIPs and the Valuation Haircuts Supplement to the MPIPs 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 acceptable eligible collateral by the counterparty in advance of the provision of credit by the Bank. On the settlement date, counterparties are required to deliver acceptable eligible collateral to the Bank 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 Bank 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, provided that sufficient collateral is in the counterparty's collateral pool. On the maturity date, counterparties are required to pay back US dollar funds to

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

the account of the Bank (as indicated) at the FRBNY by 16:00 CET. Counterparties are advised that if US dollar funds are repaid after 16:00 CET, the Bank cannot guarantee return of eligible collateral on the maturity date.

Legal requirements:

The operations set out in this statement of tender procedure will take place, in principle, using the existing legal documentation between the Bank and eligible counterparties (i.e., the framework agreement in respect of Eurosystem operations secured over collateral pool assets and a deed of charge, within the meaning of that framework agreement).

Counterparties wishing to participate in any US dollar tender are required, before bidding, to provide to the Bank their US dollar SSIs and a statement of acknowledgement. In the statement of acknowledgement, 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 the existing legal documentation (i.e., the framework agreement and deed of charge referred to above) between the counterparty and the Bank to the operation in question, unless amendment of the legal documentation is necessary.

The provision of US dollar SSIs by counterparties to the Bank should be effected via SWIFT MT299. The statement of acknowledgement may similarly be communicated via SWIFT, in which case it must be provided before bidding in any operation. Alternatively, it may be provided on a once-off basis, on headed paper of the counterparty signed by an authorised signatory and sent to: Manager of Market Operations, Financial Markets Division, Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, and copied to fmdoperations@centralbank.ie. Where that option is chosen, the SWIFT message providing the counterparties' SSIs sent before bidding on an operation must contain a confirmation that the statement of acknowledgment previously provided remains valid.

Where a counterparty does not comply with the requirements laid down in this Supplement, the procedures and sanctions set out in Part Five of the MPIPs 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.