

Banco de Portugal

Carta-Circular nº 12/2007/DMR, de 12-12-2007

ASSUNTO: Mercados Monetários - Operações de financiamento em USD garantidas por activos denominados em Euros

Na sequência de acordo celebrado entre o Banco Central Europeu e o Banco de Reserva Federal de Nova Iorque, o Eurosistema pode realizar operações de cedência de liquidez denominadas em USD garantidas por activos elegíveis denominados em Euros, nos termos e condições divulgados pelo Banco Central Europeu.

Para esse efeito, informa-se de que podem participar na realização destas operações, as instituições de crédito residentes em Portugal que possam utilizar a facilidade permanente de cedência de liquidez do Eurosistema e que, até às 16 horas do dia 14 de Dezembro de 2007, tenham enviado, as condições relativas às SSI (*Standard Settlement Instructions*) em USD, para o endereço BGAL PT PL do SWIFT, bem como a carta anexa, devidamente assinada. Dado o curto espaço de tempo, a carta poderá ser enviada para o Fax nº 21 3128101 e só posteriormente por correio registado.

As propostas para a participação no leilão deverão ser enviadas para o Departamento de Mercados e Gestão de Reservas - Serviço de Operações de Mercado, através do Fax nº 21 3144691.

Anexos: Comunicado do BCE e detalhes operacionais relativos à realização de operações de financiamento em USD, garantidas por activos denominados em Euros;
Carta de aceitação

Enviada a:

Bancos, Caixa Central de Crédito Agrícola Mútuo, Caixa Económica Montepio Geral e Caixa Geral de Depósitos.



PRESS RELEASE

12 December 2007 - Measures designed to address elevated pressures in short-term funding markets

Today, the Bank of Canada, the Bank of England, the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank are announcing measures designed to address elevated pressures in short-term funding markets.

ECB Decisions

The Governing Council of the ECB has decided to take joint action with the Federal Reserve by offering US dollar funding to Eurosystem counterparties.

The Eurosystem shall conduct two US dollar liquidity-providing operations, in connection with the US dollar Term Auction Facility, against ECB-eligible collateral for a maturity of 28 and 35 days. The submission of bids will take place on 17 and 20 December 2007 for settlement on 20 and 27 December 2007, respectively. The operational details can be obtained from the ECB's website (www.ecb.europa.eu). The US dollars will be provided by the Federal Reserve to the ECB, up to \$20 billion, by means of a temporary reciprocal currency arrangement (swap line).

It is reminded that the Governing Council previously decided on 8 November 2007 to renew at maturity the two supplementary longer-term refinancing operations (LTROs) that were allotted in August and September 2007. As an additional measure, the Governing Council decided on 13 November to lengthen the maturity of the main refinancing operation settling on 19 December 2007 to two weeks, thereby maturing on 4 January 2008 instead of 28 December 2007.

Information on Related Actions Being Taken by Other Central Banks

Information on the actions that will be taken by other central banks is available at the following websites:

Bank of Canada (<http://www.bankofcanada.ca>)

Bank of England (<http://www.bankofengland.co.uk>)

Federal Reserve (<http://www.federalreserve.gov>)

Swiss National Bank (<http://www.snb.ch>)

Statements by Other Central Banks

Bank of Japan (<http://www.boj.or.jp>)

Sveriges Riksbank (<http://www.riksbank.com>)

European Central Bank
Directorate Communications
Press and Information Division
Kaiserstrasse 29, D-60311 Frankfurt am Main
Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404
Internet: <http://www.ecb.europa.eu>

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<http://www.ecb.europa.eu/press/pr/date/2007/html/pr071212.en.html>

12 December 2007

TENDER PROCEDURE FOR PROVISION OF US DOLLARS TO EUROSYSTEM COUNTERPARTIES UNDER THE TERM AUCTION FACILITY FOR SETTLEMENT ON 20 AND 27 DECEMBER 2007

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

Type:	Provision of US dollar funding to Eurosystem counterparties against ECB-eligible collateral as set out in Chapter 6 of the General Documentation on Eurosystem monetary policy instruments and procedures ¹ (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:
Maximum amount:	USD 10 billion
Pricing:	Fixed rate tender
Auction details:	<p>Fixed rate tender, with the rate not being known by market counterparties at the time of bidding; market counterparties would be informed that the rate they would pay on the allotted amount would be equal to the marginal rate of the simultaneous Federal Reserve tender.</p> <p>The minimum bid amount is equal to USD 10 million; the maximum bid amount is equal USD 1 billion. The publication of the announcement of the tender and the allotment will take place on wire services.</p>
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 17 % 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 ECB reference rate on the allotment date. While the collateral position will not be subject to any daily revaluations or margin calls due to movements in the exchange rate, it will be subject to the normal daily mark to market valuation and variation margins applied to Eurosystem eligible collateral. The 17 % haircut therefore caters for the foreign exchange risk to which the Eurosystem will be exposed for the whole of the duration of the operation (up to 35 days) and the expected time required for the liquidation of the assets in case of a default of a counterparty.

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. For the *first leg of the operation*, market counterparties are required to deliver eligible euro-denominated collateral to their local NCB by 16:00 CET on the value date; 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 (14:00 EDT/EST) on the value date. For the *second leg of the operation*, market counterparties are required to pay back US dollar funds to the accounts of NCBs at the FRBNY by 16:00 CET (10:00 EDT/EST) to ensure adequate time for return of euro-denominated collateral by NCBs to market counterparties before close of business on the value date. Market counterparties are advised that in case US dollar funds are repaid after 16:00 CET (10:00 EDT/EST), the respective NCB cannot guarantee return of euro-denominated collateral on the value 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.

Following the announcement of the tender procedure, market counterparties wishing to participate in this Term Auction Facility are required to provide, before bidding, to their respective NCB their US dollar SSIs and a Statement of Acknowledgement. In such Statement of Acknowledgement, market

counterparties will be required to explicitly acknowledge – as a condition of 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.

The dates of the first operation are as follows:

Maturity: Thursday 17 January 2008 (28 days)

Schedule and timing: Tender announcement: Friday 14 December 2007 at 15.30 CET

Deadline for submission of bids by counterparties to NCBs: Monday 17 December 2007 at 9.30 CET

Tender results: Wednesday 19 December 2007 at 16.00 CET

Settlement date: Thursday 20 December 2007

The dates of the second operation are as follows:

Maturity: Thursday 31 January 2008 (35 days)

Schedule and timing: Tender announcement: Wednesday 19 December 2007 at 15.30 CET

Deadline for submission of bids by counterparties to NCBs: Thursday 20 December 2007 at 9.30 CET

Tender results - **tentative**: Monday 24 December 2007 at 16.00 CET

Settlement date: Thursday 27 December 2007

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 current exchange rate and is frozen for the duration of the operation (four or five weeks). This results in a longer exposure to FX risk and a higher margin than would normally be experienced in an operation with shorter maturity (e.g. one week).

To obtain an adequate level of risk control for this FX risk in line with best market practices, first the volatility of the USD/EUR 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.

DE:

Ao Banco de Portugal
Departamento de Mercados e Gestão de Reservas
Rua Francisco Ribeiro, 2
1150-165 LISBOA

ASSUNTO: Participação em operações de financiamento em USD, garantidas por activos denominados em Euros

Na sequência de acordo celebrado entre o Banco Central Europeu e o Banco de Reserva Federal de Nova Iorque, o Eurosistema pode realizar operações de cedência de liquidez denominadas em USD garantidas por activos elegíveis denominados em Euros, nos termos e condições divulgados pelo Banco Central Europeu.

F _____

(_____) e F _____

_____, (_____),

em representação de _____

pessoa colectiva nº _____, com sede em _____

_____, abreviadamente designada
“Instituição Participante”, com poderes para subscreverem o presente documento, declaram:

1. Aceitar as condições do leilão comunicadas pelo BCE;
2. Ter conhecimento de que não existe garantia de financiamento em USD, pelo que no caso de este não se verificar, a Instituição Participante não poderá responsabilizar o BCE e/ou o Banco de Portugal;
3. Conhecer e aceitar que as regras a cumprir pela “Instituição Participante” que representam, resultantes da sua participação nas operações de financiamento em USD são, com as necessárias adaptações, as constantes da Instrução nº 1/99, relativa ao Mercado de Operações de Intervenção (MOI), nomeadamente as relativas a sanções pela violação dessas regras e em especial as contidas no seu Capítulo VII e na Parte III do Anexo 1 relativas a incumprimento e as que regem em matéria de compensação, a qual poderá ter lugar nos termos e condições previstos naquela Instrução, designadamente nos casos em que a “Instituição Participante” venha a ser objecto de quaisquer providências de recuperação, de saneamento ou outras de natureza similar, ou venha a ser declarada em estado de insolvência, por forma a que tal compensação, nos termos e para os efeitos previstos no Decreto-Lei nº 105/2004, de 8 de Maio e Decreto-Lei nº 70/97, de 3 de Abril, seja oponível à massa insolvente e aos credores dessa massa;
4. Aceitar que, em aditamento às medidas de controlo de risco estabelecidas na Instrução nº 1/99, relativa ao Mercado de Operações de Intervenção (MOI), se aplique a estas operações a margem inicial fixada pelo BCE sobre o montante correspondente ao crédito concedido, após conversão para Euros do montante de cada operação, à taxa de câmbio também previamente fixada pelo BCE.

_____, ____ de _____ de _____

Assinaturas: _____
