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### Frequently Asked Questions: U.S. Dollar and Foreign Currency Liquidity Swaps

Federal Reserve System

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## Credit and Liquidity Programs and the Balance Sheet

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### Frequently asked questions: U.S. Dollar and Foreign Currency Liquidity Swaps

#### Frequently asked questions: Standing Lines for U.S. Dollar and Foreign Currency Liquidity Swaps from October 2013

- Why have the temporary swap lines been converted to standing arrangements?
- Is the purpose of standing swap lines different from the purpose of temporary swap lines?
- In what manner would these standing swap lines differ from the temporary swap lines?
- Who authorized the standing swap lines?
- For how long are standing swap arrangements expected to be operational?
- In what manner would foreign currency liquidity be provided?
- Will activity under swap arrangements be disclosed to the public?

#### Frequently asked questions: Foreign Currency Liquidity Swaps from November 2011

- What is the purpose of the foreign currency liquidity swap lines?
- Which central banks are participating in these arrangements?
- Why are these swap lines being implemented?
- Why is the Federal Reserve establishing lines for these five currencies and with these five central banks?
- In what manner would foreign currency liquidity be provided?

### Frequently asked questions: U.S. Dollar Liquidity Swaps

#### FAQs for lines in place from May 2010

- Why has the Federal Reserve re-established temporary U.S. dollar liquidity swap facilities with foreign central banks?
- With which central banks has the Federal Reserve entered into swap facilities?
- How will the swap facilities function?
- Is the Federal Reserve exposed to foreign exchange or private bank risk in extending these lines?
- Will activity under the liquidity swap arrangements be disclosed to the public?

#### FAQs for lines in place from December 2007 to February 2010

- What was the purpose of the dollar liquidity swap lines?
- What circumstances led to the implementation of these facilities?
- Who authorized the use of the swaps?
- Which central banks could engage in swaps?
- How were the swaps structured?
- How did foreign central banks distribute the U.S. dollar funding they received through these swaps?
- What revenues and costs arose for the Federal Reserve?
- What was the impact of swaps on U.S. monetary operations?

### Standing Lines for U.S. Dollar and Foreign Currency Liquidity Swaps from October 2013

#### Why have the temporary swap lines been converted to standing arrangements?

The dollar liquidity swap lines were designed to improve liquidity conditions in dollar funding markets here and abroad by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their

jurisdictions during times of market stress. These swap line arrangements have materially reduced funding pressures in the United States and abroad and thereby proven their capacity to provide an effective backstop and to support financial stability. The foreign currency swap lines provide the Federal Reserve with the capacity to offer liquidity in foreign currencies to U.S. financial institutions should the Federal Reserve judge that such actions are appropriate.

The conversion of these liquidity lines with pre-set expiration dates to standing lines further supports financial stability by reducing uncertainties among market participants as to whether and when these arrangements would be renewed. This action results from the ongoing cooperation among these central banks to help maintain financial stability and confidence in global funding markets.

[Back to FAQs](#)

## Is the purpose of standing swap lines different from the purpose of temporary swap lines?

No. These swap arrangements have helped to ease strains in financial markets and to mitigate their effect on economic conditions. They will continue to support financial stability and to serve as a prudent liquidity backstop.

[Back to FAQs](#)

## In what manner would these standing swap lines differ from the temporary swap lines?

The primary difference is that standing swap lines will be in place until further notice. Additionally, the Bank of Canada and the Federal Reserve agreed to remove the \$30 billion and C\$30 billion limits on their swap facilities to align with the arrangements the Federal Reserve has with other central banks and with the arrangements the other central banks have among themselves.

[Back to FAQs](#)

## Who authorized the standing swap lines?

The swap line arrangements were authorized by the Federal Open Market Committee (FOMC) of the Federal Reserve System and the policy boards of the other central banks. Activation of the lines remains subject to each central bank's internal decision-making process, and each central bank maintains the right to approve or deny requests for draws at any time. The FOMC authorized the lines for an indefinite period, but one that could be ended when the FOMC, one of the Federal Reserve's foreign central bank counterparties, or both decide to terminate the arrangement.

[Back to FAQs](#)

## For how long are standing swap arrangements expected to be operational?

These swap arrangements will be in place until further notice.


[Back to FAQs](#)

## In what manner would foreign currency liquidity be provided?

There has not been a decision to activate the foreign currency liquidity facilities. If the Federal Reserve were to decide to offer liquidity in foreign currencies to U.S. financial institutions, the details of the operations would be determined at that time in light of the prevailing circumstances.

[Back to FAQs](#)

## Will activity under swap arrangements be disclosed to the public?

Yes, the aggregate swap activity in each currency with each foreign central bank will be published weekly. They will be found on the [Federal Reserve Bank of New York's Foreign Exchange Swap Agreement webpage](#) .

[Back to FAQs](#)

## Foreign Currency Liquidity Swaps from November 2011

### What is the purpose of the foreign currency liquidity swap lines?

The foreign currency liquidity swap lines are designed to provide the Federal Reserve with the capacity to offer liquidity in foreign currencies to U.S. financial institutions should the Federal Reserve judge that such actions are appropriate.

[Back to FAQs](#)

### Which central banks are participating in these arrangements?

The Federal Open Market Committee has authorized arrangements between the Federal Reserve and the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank. In addition, these foreign central banks are also establishing bilateral swap arrangements with one another.

[Back to FAQs](#)

### Why are these swap lines being implemented?

These swap lines are being implemented as a contingency measure, so that central banks can offer liquidity in foreign currencies if market conditions warrant such actions. These lines provide the Federal Reserve with the same ability to provide foreign currency, should the need arise, as foreign central banks currently have through the existing dollar swap lines with the Federal Reserve to provide dollar liquidity in their jurisdictions.

[Back to FAQs](#)

### Why has the Federal Reserve authorized lines for these five currencies and with these five central banks?

These five currencies are used globally and account for the bulk of the foreign currency funding of U.S. financial institutions.

[Back to FAQs](#)

### In what manner would foreign currency liquidity be provided?

There has not been a decision to activate the foreign currency liquidity facilities. If the Federal Reserve were to decide to offer liquidity in foreign currencies to U.S. financial institutions, the details of the operations would be determined at that time in light of the prevailing circumstances.

[Back to FAQs](#)

## Frequently asked questions: U.S. Dollar Liquidity Swaps

### FAQs for lines in place from May 2010

#### Why has the Federal Reserve re-established temporary U.S. dollar liquidity swap facilities with foreign central banks?

The swap facilities announced in May 2010 respond to the re-emergence of strains in short term funding markets in Europe. They are designed to improve liquidity conditions in global money markets and to minimize the risk that strains abroad could spread to U.S. markets, by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions.

[Back to FAQs](#)

## With which central banks has the Federal Reserve entered into swap facilities?

The Federal Reserve has established swap arrangements with the Bank of Canada (BOC), the Bank of England (BOE), the European Central Bank (ECB), the Swiss National Bank (SNB), and the Bank of Japan (BOJ).

[Back to FAQs](#)

## How do the swap facilities function?

The swap lines with the ECB, BOE, SNB and BOJ provide these central banks with the capacity to conduct tenders of U.S. dollars in their local markets at fixed local rates for full allotment, similar to arrangements that had been in place previously. The swap line with the Bank of Canada allows for drawings of up to \$30 billion. The terms, structure, and operational mechanics of these swap agreements closely parallel the arrangements that expired on February 1, 2010.

[Back to FAQs](#)

## Is the Federal Reserve exposed to foreign exchange or private bank risk in extending these lines?

No. Dollars provided through the reciprocal currency swaps are provided by the Federal Reserve to foreign central banks, not to the institutions obtaining the funding in these operations. The foreign central bank receiving dollars determines the terms on which it will lend dollars onward to institutions in its jurisdiction, including how the foreign central bank will allocate dollar funds to financial institutions, which institutions are eligible to borrow, and what types of collateral they may borrow against. The terms governing these loans of dollars are in all cases released to the public by the foreign central banks. As the Federal Reserve's contractual relationship is exclusively with the foreign central bank and not with the institutions obtaining dollar funding in these operations, the Federal Reserve does not assume the credit risk associated with lending to financial institutions based in these foreign jurisdictions. The provision of dollars and receipt of foreign currency, and the receipt of dollars and return of foreign currency at the swap's maturity date, both occur at the same foreign exchange rate so that the Federal Reserve is not exposed to movements in foreign exchange rates.

[Back to FAQs](#)

## Is activity under the liquidity swap arrangements disclosed to the public?

Yes, swap activity is published weekly. The Federal Reserve has also released the underlying legal agreements with foreign central banks.

[Back to FAQs](#)

## FAQs for lines in place from December 2007 to February 2010

### What was the purpose of the dollar liquidity swap lines?

The dollar liquidity swap lines were designed to improve liquidity conditions in U.S. and foreign financial markets by providing foreign central banks with the capacity to deliver U.S. dollar funding to institutions in their jurisdictions during times of market stress.

[Back to FAQs](#)

### What circumstances led to the implementation of these facilities?

The swap arrangements were introduced to address stresses in U.S. dollar funding in overseas markets. These difficulties were adding materially to pressures in funding and credit markets in the United States and abroad.

[Back to FAQs](#)

### Who authorized the use of the swaps?

The arrangements were authorized by the Federal Open Market Committee (FOMC) of the Federal Reserve System and the policy boards or executives of the respective foreign central banks. The Federal Reserve had the right to approve or deny requests by foreign central banks to draw on their swap lines. The FOMC authorized these arrangements through February 1, 2010. The foreign central banks could request draws on their swap lines up to that date.

[Back to FAQs](#)

## Which central banks could engage in swaps?

The Federal Reserve established swap arrangements with the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, the Norges Bank, the Monetary Authority of Singapore, the Sveriges Riksbank, and the Swiss National Bank.

[Back to FAQs](#)

## How were the swaps structured?

The Federal Reserve provided U.S. dollars to a foreign central bank. At the same time, the foreign central bank provided the equivalent amount of funds in its currency to the Federal Reserve, based on the market exchange rate at the time of the transaction. The parties agreed to swap back these quantities of their two currencies at a specified date in the future, which was the next day or as far ahead as three months, using the same exchange rate as in the first transaction. Because the terms of this second transaction were set in advance, fluctuations in exchange rates during the interim did not alter the eventual payments. Accordingly, these swap operations carried no exchange rate or other market risks.

[Back to FAQs](#)

## How did foreign central banks distribute the U.S. dollar funding they received through these swaps?

The foreign central banks distributed the U.S. dollars they drew through a variety of methods, including variable-rate tenders, fixed-rate tenders, bilateral transactions, and foreign exchange swap tenders against various types of collateral, including both foreign currency and securities denominated in foreign currency. In each case, the arrangement was between the foreign central bank and the institutions obtaining the funding in these operations. The foreign central banks determined the acceptability of the collateral offered and the eligibility of the institutions to participate in the operations they conducted. The terms on which funds were tendered were released to the public by the foreign central banks. The Federal Reserve's contractual relationship was with the foreign central bank and not with the institutions obtaining dollar funding in these operations.

[Back to FAQs](#)

## What revenues and costs arose for the Federal Reserve?

When a foreign central bank drew on its swap line to fund its dollar tender operations, it paid interest to the Federal Reserve in an amount equal to the interest the foreign central bank earned on its tender operations. For its part, the Federal Reserve did not pay interest and committed to hold the foreign currency that it acquired in the swap transaction at the foreign central bank (rather than lending it or investing it in private markets). The structure of the arrangement served to avoid domestic currency reserve management difficulties for foreign central banks that could have arisen if the Federal Reserve had actively invested the foreign currency holdings in the marketplace.

[Back to FAQs](#)

## What was the impact of swaps on U.S. monetary operations?

The drawing of U.S. dollars by a foreign central bank resulted in an increase in the level of reserve balances held at the Reserve Banks. Similarly, the repayment of U.S. dollars to the Federal Reserve when a swap was unwound

resulted in a drain of these balances.

[Back to FAQs](#)

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