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Outline of talk

- Brief remarks on Robert McCauley’s paper
- Importance of US dollar funding for non-US GSIBs
- Some aspects of SNB’s handling of Credit Suisse liquidity crisis in March 2023
- Central bank swap lines and FIMA repo facility as sources of liquidity backstop
- Preliminary lessons learned

Remarks on "The offshore dollar and US policy" by Robert McCauley

- Chronicle joint evolution of (very large) offshore US dollar money markets, esp. eurodollar markets, and of policy measures taken to stabilize market functioning
- Main thesis: System of CB swap lines supports functioning of offshore dollar money markets, in part by strengthening ability of foreign CBs to act as LoLR
- Agree with Bob's main thesis

- *This* presentation: Complement Bob's analysis by discussing a recent use of the Fed's Foreign Institutions and Monetary Authorities (FIMA) repo facility

Two suggestions on Bob's paper

1) Add a mention of post-9/11 use of swap lines between Fed and ECB

2) Clarify the purpose of the swap lines:

- Primary purpose of swap lines: "counter severe global dollar funding strains"
- *Not* designed to enable Fed to act as the international Lender of Last Resort (LoLR)
- Instead: The swap lines and similar facilities enable *other central banks* to act as LoLR

How do central banks exercise their Lender of Last Resort function?

- Basic recipe for containing banking crises since 1873:
- Bagehot's Rule: "Lend quickly and freely, at a high rate, against good banking securities"
- Bagehot's Rule still applies, but with a crucial adaptation for GSIBs: "lend freely" not only in the home currency but in other currencies, and especially in US dollars

Walter Bagehot, 1826–1877

Some aspects of the Credit Suisse (CS) crisis of March 2023

- At the end of 2022, CS was (still) one of the 30 GSIBs
- Like the other GSIBs, CS funded itself not only in Swiss francs but also in many other currencies, including the US dollar
- In March 2023, CS experienced a deep crisis of investor confidence and a sharp run on its deposit base
- By 20 March 2023, SNB had provided CS with CHF 168 bn equiv. (USD 182 bn equiv.) in emergency liquidity. Almost half of the total was disbursed in USD
- SNB relied mainly on Fed’s FIMA repo facility to source USD liquidity

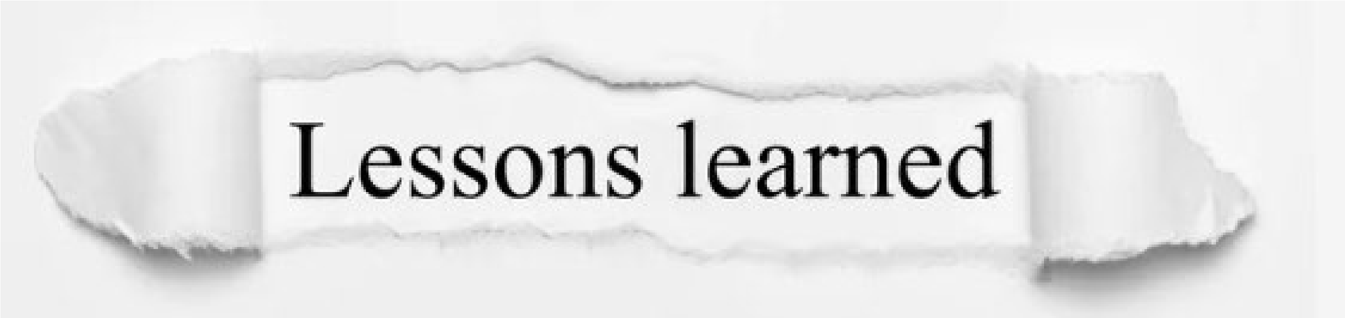
Foreign Institutions and Monetary Authorities (FIMA) repo facility

- First set up in late March 2020, at height of money market turmoil caused by Covid pandemic
- Extended twice, and made permanent in July 2021
- Account holders: Central banks and foreign institutions
- Obtain temporary dollar liquidity by engaging in repos with the FRBNY
- Collateral: U.S. Treasury securities
- So far, FIMA has been used heavily only once

Key differences between CB swap lines and FIMA repo facility as liquidity backstops

	CB swap lines	FIMA repo facility
Membership	Limited set of central banks	Open to a broader group
Purpose	Ease strains in global funding markets	Alternative source of US dollars to asset sales
Security/Collateral	Currencies of CBs engaged in the swap. E.g., EUR or JPY vs USD	U.S. Treasuries
Delivery time	T+1 (T+0 *may* be possible)	T+0 *guaranteed*
Currency; Provider of liquidity	In principle, currencies of all participating central banks	US dollar; Federal Reserve

Preliminary lessons learned from the CS crisis



- Exercising the LoLR function over a GSIB can involve having to provide prodigious amounts of liquidity in both the home currency and in US dollars
- Importance of assuring operational readiness and well-established lines of communication at operational level, for both the initiating CB and the Fed
- Advantages of FIMA repo facility: “no questions asked”, no “stigma”, open to a broader set of central banks
- Not related to Bob’s paper but important: Wholesale funding of banks can dry up much faster than most regulatory models assume is the case

Thank you for your attention.

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