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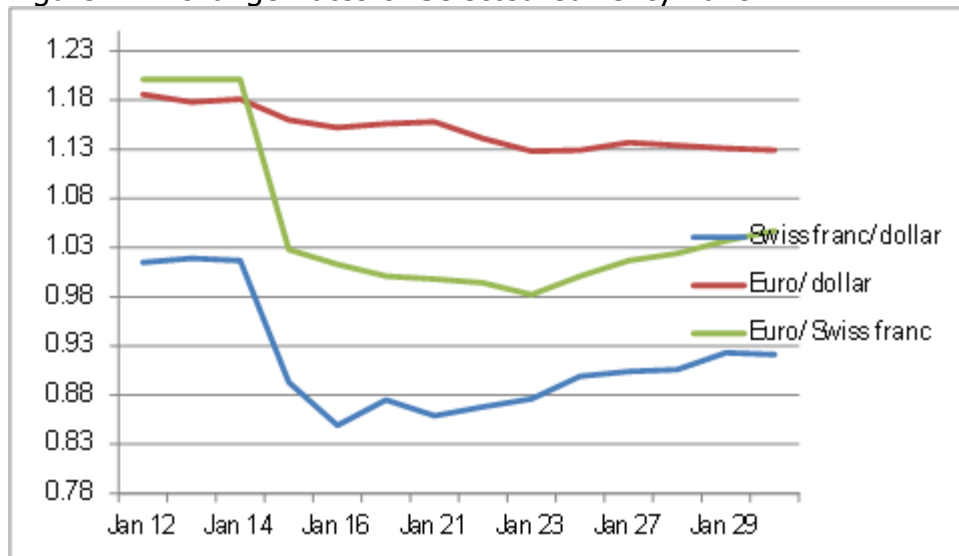
The Swiss National Bank's Recent Currency Actions

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In what has been characterized as one of the most significant currency decisions in decades, on January 15, 2015, the Swiss National Bank (SNB) removed without any public warning the cap it had maintained on the foreign exchange value of the Swiss franc relative to the euro. The move surprised international currency traders, who acted swiftly by acquiring francs, sharply increasing the value of the franc against the dollar and the euro, as indicated in [Figure 1](#).

Figure 1. Exchange Rates of Selected Currency Pairs



Source: Developed by CRS from data published by the Federal Reserve.

Following the announcement, the Swiss stock market dropped by more than 13% and the franc rose by more than 30% against the euro, before settling to a one day appreciation of about 15%. The SNB also set the official interest rate at negative 0.75% to discourage capital inflows and relieve pressure on the franc. By January 16, 2015, the Swiss franc had increased in value from 1.2 francs per euro to par value (one Swiss franc per one euro), but has depreciated slightly since. Similarly, the Swiss franc appreciated against the dollar, and the dollar appreciated against the euro, rising from nearly \$1.19 per euro on January 15, 2015, to about \$1.13 per euro by the end of the month. In response, the SNB intervened in the foreign exchange markets by spending nearly \$65 billion to acquire euro-denominated assets to blunt the appreciation of the franc. According to a triennial survey conducted by the Bank for International Settlements (BIS), the franc is the sixth most heavily traded currency in global foreign exchange markets.

According to the SNB, it removed the franc/euro cap, which it had maintained since September 2011, because it had achieved its stated policy goal of stabilizing the currency's exchange rate. The cap was supported by the SNB, which had printed large amounts of francs to maintain the cap. In turn, the SNB acquired an estimated \$556 billion in euro-denominated assets to support the franc/euro cap, which sharply increased the bank's balance sheet to an amount equivalent to 85% of Swiss national GDP. In large part, these measures were directed at discouraging currency traders from acquiring francs as a safe haven currency and, thereby, appreciating the value of the franc, during the European sovereign debt crisis of 2010-2011. Recently, the SNB reportedly had grown concerned over deflationary pressures in Switzerland and Europe and the potential cost of maintaining the cap while the European Central Bank proceeded with its anticipated bond-buying program, which likely would have placed

additional upward pressure on the value of the franc. Swiss exporters supported the SNB's efforts to hold down the franc's exchange value to make their goods more competitive in international markets; exports of goods and services are equivalent to more than 70% of Swiss gross domestic product (GDP). The SNB may also have been concerned over the prospect of a public referendum, a unique feature of the Swiss system, which would have curtailed the ability of the SNB to intervene in foreign exchange markets to maintain the cap on the franc's value.

Elsewhere, the Polish zloty, the Hungarian forint, Romanian leu, Bulgarian lev, and the Czech koruna all depreciated relative to the franc following the SNB's actions. Currency traders and speculators also have looked at such countries as Denmark that have maintained a cap on their currencies similar to that of Switzerland. The Danish National Bank responded to the SNB's actions by reducing its official interest rates four times in successive moves to negative rates similar to those of Switzerland and spent \$15 billion in currency intervention to discourage capital inflows and maintain the krone's peg to the euro. Denmark is one of nine countries that are voluntary members of the Exchange Rate Mechanism II that acts to manage fluctuations in rates between the euro and other EU currencies.

Consumers and businesses in various European countries have been affected by the SNB's actions, because they borrowed large amounts of Swiss francs due to low interest rates and the perceived stability of the currency. The abrupt appreciation of the franc, however, sharply raises the cost of servicing loans made in Swiss francs, which could precipitate a round of defaults on mortgages in Poland and Hungary and business loans. In Poland, 46% of recent home loans have been in Swiss francs. The move also caused a number of currency and currency derivative traders in Europe to declare bankruptcy or experience large losses as a result of highly leveraged positions. On January 19, 2015, Alpari Ltd., a major UK currency trading firm, filed for insolvency as a result of currency-related losses; administrators were appointed under the UK's Special Administrative Regime to resolve the distressed financial firm.

In the United States, the abrupt movement in the value of the Swiss franc left numerous currency traders with large losses. FXCM Inc., the largest U.S. retail currency broker with more than 230,000 on-line day traders, many of them outside the United States, promoted highly leveraged positions. The appreciation of the franc left the firm with a shortfall of more than \$225 million as many of its clients experienced losses that exceeded the value of their margin accounts, some by more than 200 times. Rules set by the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA) permit traders to have leverage ratios that exceed 50 times the value of their margin accounts. FXCM was rescued by Leucadia National Corp., which arranged for a \$300 million loan to help FXCM meet its regulatory capital requirements and to conduct normal business activities. These actions prompted the NFA to increase margin requirements on three currencies and a CFTC Commissioner to call for "enhancing" regulation of retail foreign exchange dealers to make them "at least as strong as the regulations on the rest of the derivatives industry." Such actions might require congressional action, since Congress oversees the CFTC.