The Swiss National Bank in Brief

Swiss National Bank
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Introduction

The Swiss National Bank (SNB) is Switzerland’s central bank. It is vested with the note-issuing privilege and has been mandated to conduct the country’s monetary policy. In accordance with the Constitution and Swiss law, the SNB is independent in the fulfilment of its mandate, is accountable to the relevant Swiss authorities and is obliged to provide the general public with regular information on its activities.

This brochure contains an introduction to the key tasks and the organisation of the SNB. Chapter 1 outlines the history of the SNB’s mandate. Chapter 2 explains the strategy that the SNB pursues to achieve its goals of ensuring price stability and the considerations on which it bases its monetary policy decisions. Chapter 3 shows how the SNB supplies the money market with liquidity, thereby putting its monetary policy decisions into practice. Chapter 4 describes the SNB’s role in the Swiss payment system. Chapter 5 presents the functions of the SNB’s assets and the principles by which they are managed. Chapter 6 illustrates the ways in which the SNB fulfils its mandate of contributing to the stability of the financial system. Chapter 7 specifies the international institutions and bodies in which the SNB is represented. Chapter 8 explains the link between independence and accountability and the relationship between the SNB and the Swiss Confederation. Chapter 9 shows how the SNB is structured and chapter 10 summarises the legal foundation on which its activities are based.

The appendix contains lists of the SNB’s most important publications, the organisational chart, the balance sheet and some relevant addresses.

This brochure can be obtained in German, French, Italian and English from the SNB library. It is also available, together with additional information, on the SNB’s website (www.snb.ch, *Publications*).

1 The Swiss National Bank's mandate

Legal basis

The Swiss National Bank conducts the country's monetary policy as an independent central bank. Its mandate is to conduct the monetary policy in such as way that money preserves its value and the economy can develop in an appropriate manner. This mandate is enshrined in the Constitution and the National Bank Act (NBA). The Constitution (art. 99) obliges the SNB, as an independent central bank, to conduct a monetary policy that serves the interests of the country as a whole. The NBA (art. 5 para. 1) describes this mandate in more detail: The SNB "shall ensure price stability. In so doing, it shall take due account of the development of the economy".

Origin of central banks

A well-organised, stable monetary system is an important prerequisite for a prosperous economy. With the emergence of nation states, the creation of money and the organisation of the monetary system were, as a rule, assigned to a public institution, i.e. the central bank.

The central banks' origins vary from one country to another. Some of the oldest central banks were originally state banks with the tasks of granting credits to the state and managing the state assets. Others were set up to enhance the stability of the banking system and to counteract frequent bank panics.

History of the SNB

Other central banks, including the SNB, were successor organisations to private money issuing institutions. In the 19th century, there were several cantonal and private banks in Switzerland which issued banknotes in competition to one another. As the Swiss economy was growing fast and becoming increasingly integrated into the world economy, the interests of the private banks were less and less aligned to the requirements of the Swiss economy as a whole. This was reflected in particular by an inadequate supply of banknotes. Calls for the creation of a central bank endowed with a money-issuing privilege became increasingly vociferous. In 1891, an article was added to the Constitution stating that the right to issue banknotes was the preserve of the Confederation alone. In June 1907, the Swiss National Bank assumed its function as Switzerland's central bank.

Changes in monetary order

At the time of the SNB's foundation, the global monetary order was based on the firm relationship between currencies and gold. In this connection, the SNB's mandate was to regulate the money circulation and facilitate payment transactions. On demand, it was obliged to provide gold in exchange for banknotes.

The monetary order has changed considerably since then. Gold no longer plays the role of anchor in the international monetary system, and the significance of banknotes has dwindled in comparison to book money. What has remained unchanged is the SNB's responsibility of conducting its monetary policy so as to keep the value of money stable and enable the economy to prosper.

2 Monetary policy strategy

Significance of price stability

Price stability is an important condition for growth and prosperity. It means that money retains its value over time and prices can fulfil their steering function for the production and consumption of individual goods as best possible. Inflation (a sustained increase in the price level) and deflation (a sustained decrease in the price level) both hamper economic development. They complicate decision-making by consumers and producers, lead to misallocations of labour and capital, result in income and asset redistributions, and put the economically weak at a disadvantage.

Appropriate monetary environment

The SNB maintains price stability by ensuring appropriate monetary conditions. This means keeping interest rates and the supply of money and credit aligned to the prevailing economic situation. Low interest rates promote the supply of money and credit to the economy, thereby increasing the demand for goods and services. After a while, this puts pressure on production capacity, causing price increases. At the same time, there is also the risk that excesses may occur on the financial and real estate markets. Conversely, increasing interest rates lead to a reduction in the supply of money and credit, thereby holding back aggregate demand. The utilisation of production capacity falls and the price level declines.

Monetary policy strategy

The monetary policy strategy sets out the manner in which the SNB intends to fulfil its statutory mandate. It consists of the following three elements: a definition of price stability, a conditional inflation forecast over the subsequent twelve quarters, and a target range for a reference interest rate, the three-month Swiss franc Libor (London Interbank Offered Rate). Since 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied.

Definition of price stability

The SNB equates price stability with a rise in the national consumer price index of less than 2 % per year. Deflation – in other words, a protracted decline in price levels – is also regarded as a breach of the objective of price stability. With its definition of price stability, the SNB takes into account, in particular, the fact that the consumer price index tends to slightly overstate inflation and that inflation cannot be measured precisely.

Conditional inflation forecasts

The inflation forecast published quarterly by the SNB performs a dual function. First, it serves as the main indicator for the interest rate decision. Second, it provides an important reference point for the general public and is a key element in communication.

The SNB's inflation forecast is based on the assumption that the reference interest rate communicated at the time of publishing will remain unchanged over the next three years. It is therefore a conditional forecast and shows how the SNB expects consumer prices to move in the event that monetary policy does not change. It cannot be directly compared with forecasts by commercial banks or research institutions, as these institutions generally factor anticipated interest rate movements into their own forecasts.

Inflation forecasts are made quarterly, and cover a period of three years. This corresponds roughly to the time required for the transmission of monetary policy impulses to output and prices. With its three-year forecast, the SNB takes account of the fact that the effects of monetary policy are lagged and it therefore has to adopt a forward-looking stance.

For a country like Switzerland with its strong international integration, developments in the global economy play an important role. Consequently, the inflation forecast is based on assumptions with regard to the future path of the global economy. Indicators related to the business cycle, as well as exchange rates and commodity prices (crude oil), are also of relevance for short-term changes in the price level. In addition, changes in the monetary aggregates and in lending are taken into account in the inflation forecast, since medium and long-term price movements depend, to a large extent, on money supply.

If the forecast inflation shows values that lie outside the price stability range, an adjustment of monetary policy may be necessary. Thus, should inflation threaten to exceed 2 % on a sustained basis, the SNB would consider tightening its monetary policy. Conversely, it would schedule a monetary easing if deflationary tendencies were identified. However, the SNB does not react mechanically to the inflation forecast. When taking its monetary policy decisions, it also considers potential risks and other aspects that are not factored into the forecasting models.

Target range for the three-month Swiss franc Libor

To implement its monetary policy, the SNB lays down a target range for the three-month Swiss franc Libor on a quarterly basis. Under normal circumstances, the target range extends over one percentage point, and the SNB generally aims to keep the Libor in the middle of the range. Since August 2011, a narrow target range of 0.0–0.25 % has applied. From 6 September 2011, a minimum exchange rate for the euro against the Swiss franc has also applied.

The Libor corresponds to a trimmed mean of the current interest rates charged by 12 leading banks for unsecured interbank loans and is published daily by the British Bankers' Association in London. It is an important reference rate for numerous credit relationships in the world of business.

Quarterly assessments

The SNB conducts in-depth monetary policy assessments in March, June, September and December. Each of these assessments results in an interest rate decision and the publication of the conditional inflation forecast. The SNB sets out the reasons for its decision in a press release. In June and December, it provides additional information on the monetary policy decision at a news conference. If necessary, the SNB may take monetary policy measures at any time between regular assessment dates. Economic developments and the background to the monetary policy decision are analysed in the quarterly monetary policy report, which is published in the *Quarterly Bulletin*.

3 Implementation of monetary policy

Basic features of money market steering

The SNB implements its monetary policy by managing liquidity on the money market and thereby influencing the interest rate level. The three-month Libor serves as its reference interest rate. In addition, a minimum exchange rate against the euro is currently in place.

The SNB manages the three-month Libor by means of liquidity-providing and liquidity-absorbing money market operations. The SNB can influence the three-month Libor by means of the interest rates charged for these money market operations. The choice of liquidity management regime depends on the liquidity structure in the banking system. If the banking system is undersupplied with liquidity, the SNB provides liquidity through short-term money market transactions. If, however, the banking system is oversupplied with liquidity, the SNB absorbs liquidity via money market transactions.

Liquidity and minimum reserves

In order for a bank to maintain its solvency, it must have sufficient liquidity at all times. Sight deposits at the SNB are a bank's most liquid assets. They are always available for payment transactions and represent legal payment instruments. In addition, banks maintain sight deposits as a form of liquidity reserve and in order to fulfil the statutory minimum reserve requirements, through which legislators aim to ensure that banks hold a minimum level of central bank money. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the SNB. The minimum reserve requirements currently amount to 2.5 % of the relevant short-term liabilities, which are understood to be the sum of the short-term (up to 90 days) liabilities in Swiss francs plus 20 % of the liabilities towards customers in the form of savings deposits and investments.

Access to monetary policy operations

In principle, all banks domiciled in Switzerland or the Principality of Liechtenstein are admitted as SNB counterparties in monetary policy operations. Other domestic financial market participants, such as insurance companies, as well as banks domiciled abroad, may be admitted to monetary policy operations provided this is in the SNB's monetary policy interest and the said institutions contribute to the liquidity on the secured Swiss franc money market.

Monetary policy instruments

The transactions the SNB is allowed to conduct for the implementation of its monetary policy are specified in art. 9 of the National Bank Act. *The Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* provide a detailed description of the instruments used.

Open market operations and standing facilities

The SNB distinguishes between open market operations and standing facilities in its monetary policy instruments. In the case of open market operations, the SNB takes the initiative in the transaction. Open market operations include repo transactions and the issuance of SNB debt certificates (SNB Bills).

Standing facilities include the liquidity-shortage financing facility and the intraday facility. As far as the standing facilities are concerned, the SNB merely sets the conditions under which counterparties can obtain liquidity. The liquidity-shortage financing facility serves to bridge unexpected liquidity bottlenecks, and the intraday facility eases interbank payment transactions.

Repo transactions

In the case of liquidity-providing repo transactions, the SNB purchases securities from a bank or another institution admitted as counterparty for repo transactions and credits the countervalue to the latter's sight deposit account. At the same time, it is agreed that the SNB will resell securities of the same type and quantity at a later date. The bank pays interest (repo interest rate) to the SNB for the term of the repo agreement. In the case of liquidity-absorbing repo transactions, the SNB sells securities to a commercial bank and debits the countervalue to the latter's sight deposit account. At the same time, it is agreed that the SNB will repurchase the securities from the bank at a later date. The SNB pays interest (repo interest rate) to the bank for the term of the repo agreement.

From an economic point of view, a repo is considered to be a secured loan. The repo interest rate level, the volume and the term of the transactions depend on monetary policy requirements. The terms of repo transactions vary from one day (overnight) to several months. For repo transactions within the context of open market operations, collateral eligible for SNB repos must cover 100% of the funds obtained at all times.

SNB Bills

The SNB issues its own interest-bearing debt certificates in Swiss francs (SNB Bills). Like liquidity-absorbing repo transactions, the issuance of SNB Bills serves to absorb liquidity. Most of the liquidity is tied up through this instrument. SNB Bills have various terms, but none exceeding 12 months. They are included in the list of securities eligible for SNB repos and can thus be used as collateral for repo transactions. The SNB can also buy or sell SNB Bills via the secondary market. SNB Bills do not represent legal tender and cannot therefore be used by banks to satisfy minimum reserve requirements.

Auctions

The SNB conducts its repo transactions and issues SNB Bills by means of auctions. Transactions are concluded via the electronic trading platform of Eurex Zurich Ltd. The securities side of the transactions concluded via the trading platform is settled by SIX SIS Ltd; the money side through the SIC system operated by SIX Interbank Clearing Ltd (cf. chapter 4).

Collateral eligible for SNB repos

The SNB enters into credit transactions with banks and other financial market participants on condition that sufficient collateral is provided for the loans. In so doing, the SNB protects itself against losses and ensures equal treatment of its counterparties. Section 3 of the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* outlines the types of securities eligible as collateral for transactions with the SNB. Only securities that meet the requisite criteria and are included in the list of collateral eligible for SNB repos are admitted for repo transactions. Since the SNB also admits banks domiciled abroad to its monetary policy operations, it accepts securities denominated in foreign currencies in addition to those denominated in Swiss francs. By international standards, the SNB has a tradition of setting high minimum requirements with regard to the marketability and credit rating of securities.

Further monetary policy instruments

The SNB has further monetary policy instruments at its disposal in addition to repo transactions and the issuance of SNB Bills. These include, in particular, foreign exchange swaps as well as spot and forward foreign exchange transactions. In a foreign exchange swap, the purchase (sale) of foreign exchange and the resale (repurchase) of the foreign exchange at a later date are simultaneously agreed. Foreign exchange swaps are an instrument for supplying the money market with liquidity. In the case of foreign exchange spot transactions, the SNB buys or sells foreign currency on the foreign exchange market with the aim of influencing Swiss franc exchange rates. Following the introduction of the minimum exchange rate of CHF 1.20 per euro on 6 September 2011, the SNB, if necessary, buys foreign currency to ensure that the exchange rate does not fall below this level.

4 The Swiss National Bank's role in the payment system

Background

The National Bank Act (NBA) obliges the SNB to supply the country with cash (notes and coins) and to ensure and facilitate the functioning of the cashless payment systems (art. 5 para. 2). To fulfil these tasks, the SNB is dependent on efficient and secure payment transaction infrastructure. Therefore, the NBA also furnishes the SNB with the responsibility for monitoring the payment and securities settlement systems (cf. chapter 6).

Cash transactions

The SNB is entrusted with the note-issuing privilege. It supplies the economy with banknotes that meet high standards with respect to quality and security. It is also charged by the Confederation with the task of coin distribution.

Current Swiss banknotes are printed by Orell Füssli Security Printing Ltd on special paper supplied by the company Landqart AG. The Confederation is responsible for the minting of coins, which is carried out by the Berne-based Swissmint, the official Federal Mint.

The SNB also determines the denomination and design of the banknotes. Particular attention is paid to their security. Given the speed at which counterfeiting technology advances, the effectiveness of the security features on the banknotes must be continuously checked and, if necessary, adapted. In cooperation with third parties, the SNB develops new security features that make it possible to update the existing ones on current banknotes and to better protect new banknotes.

Supplying the economy with banknotes and coins is effected via the two cash distribution services at the Berne and Zurich head offices, as well as 14 agencies operated by the cantonal banks on behalf of the SNB. The SNB issues banknotes and coins commensurate with demand for payment purposes, offsets seasonal fluctuations and takes back any banknotes and coins which are no longer fit for circulation. The role of retailer, which includes the distribution and redemption of banknotes and coins, is assumed by commercial banks, Swiss Post and cash processing operators.

Although the proportion of transactions settled in cash has been declining in all advanced economies over the past few decades, banknotes still remain an important means of payment. This is particularly true in the case of Switzerland which, by international standards, has a high amount of banknotes in circulation. In 2011, there were Swiss banknotes worth CHF 49.3 billion in circulation on average, which corresponds to an almost 9 % ratio of banknotes in circulation to nominal GDP.

Cashless payment transactions

A large part of the cashless payment transactions of banks and other selected financial market participants are settled via the Swiss Interbank Clearing System (SIC system). This system is based on the SNB's sight deposit system and is steered by the SNB.

The SNB's sight deposit system

The SNB holds sight deposit accounts for the following categories of payment system participants: domestic banks and securities dealers, banks established under foreign law, PostFinance, insurance companies and fund managers supervised by FINMA and with substantial activities in the money market, domestic cash processing operators without banking status, the Confederation and other public bodies, foreign central banks, and international organisations.

The balances on the sight deposit accounts are non-interest-bearing SNB sight liabilities. Sight deposit account holders who are active in the Swiss franc payment system and fulfil certain technical criteria also have a SIC settlement account. The SIC system processes payments on these accounts. Cash deposits and cash withdrawals as well as transactions by sight deposit holders that do not participate in the SIC system are handled through the SNB's sight deposit account system.

SIC system

Large-value payment transactions and a part of the retail payment transactions are processed via the SIC system. Furthermore, the SNB uses this system to provide the Swiss franc money market with liquidity (cf. chapter 3). SIC is a real-time gross settlement system. This means that payment orders are executed irrevocably and individually in real time through the participants' settlement accounts. The settlements are therefore equivalent to cash payments.

The SNB steers the SIC system. It transfers liquidity from the sight deposit accounts at the SNB to the settlement accounts in the SIC system at the start of each clearing day and transfers the balances from the SIC settlement accounts back to the sight deposit accounts at the end of the clearing day.

The SNB has entrusted the responsibility of operating the SIC system to SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd. SIX Group Ltd was set up jointly by Swiss banks. Participants in the SIC system can settle their payments around the clock. Subject to certain conditions, banks domiciled abroad are also admitted to the SIC system.

The SIC system has a link to SECOM, the securities settlement system operated by SIX SIS Ltd. This link ensures that securities transactions can be processed according to the delivery-versus-payment principle. In other words, the transfer of securities in SECOM and their payment through the SIC system occur simultaneously, which eliminates the principal risk in connection with securities transactions.

Just as important for payment transactions is the Continuous Linked Settlement System (CLS). CLS is a global payments system specialised in the low-risk processing of foreign exchange transactions. The settlement of payments in Swiss francs is made possible via a direct link between the SIC system and CLS Bank, which operates CLS.

Other payment services

In the area of cashless retail payments, banks and PostFinance offer their customers various payment instruments that are, in part, also processed via the SIC system. These include credit, debit and prepaid cards, cheques, payment slips, direct debits and payment solutions via mobile phones. In addition, most banks as well as PostFinance enable their customers to make payment transactions online and, by means of e-bills, offer them solutions for fully electronic billing and payment.

5 Asset management

Background

Just like any company, the SNB has assets. A large proportion of these assets, however, fulfils important monetary policy functions. They consist mainly of gold and foreign currency assets and, to a lesser extent, of financial assets in Swiss francs. Their size and composition are determined by monetary policy requirements and the established monetary order.

Reserve assets

The SNB's currency reserves are held primarily in the form of foreign currency investments and gold. The currency reserves also include Special Drawing Rights (SDRs) and the reserve position in the International Monetary Fund (IMF). The currency reserves are made up primarily of euros and US dollars, which are invested in the associated markets. Switzerland receives Special Drawing Rights as a member of the IMF. They are managed by the SNB. The gold comprises physical gold holdings and claims from gold transactions.

The currency reserves provide the SNB with room for manoeuvre in its monetary policy. They are of special significance to Switzerland, a country with a small and open economy and an internationally important financial sector. Currency reserves have a confidence-building and stabilising effect and serve to prevent and overcome crises.

Financial assets in Swiss francs

The SNB's financial assets in Swiss francs are made up of Swiss franc bonds and claims from repo transactions (cf. chapter 3).

Investment policy

The SNB's investment policy is guided by monetary policy requirements and is carried out in accordance with the criteria of security, liquidity and return.

The SNB's own *Investment Policy Guidelines* (cf. www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*) define the scope for its investment activity and for the investment and risk control process. Within this framework, investments are made in line with generally accepted principles of asset management. Investment diversification aims at achieving an appropriate risk/return profile.

A significant proportion of foreign exchange reserves are held in secure and liquid US and European government securities. The average duration of the investments is several years. The SNB also invests a part of the foreign exchange reserves in more profitable and higher-risk securities including, for the past few years, corporate bonds and shares of foreign corporations. Broad diversification of currencies and instruments allows the SNB to achieve higher returns in the long term, without having to risk greater fluctuations in earnings. However, for reasons of overriding importance, it may be necessary to deliberately assume certain risks and to bear associated losses. Thus the SNB does not hedge against currency risk as a matter of principle, since this would have undesirable monetary policy consequences.

As part of its gold management policy, the SNB lends a small portion of its gold holdings to first-class domestic and foreign financial institutions on a collateralised basis. These pay interest on the temporary loan of gold.

6 The Swiss National Bank's contribution to financial stability

Importance of financial stability

Financial stability means that financial system participants, i.e. financial intermediaries (banks) and infrastructures (payment and securities settlement systems) are able to perform their functions and are resistant to disturbances. It is an important prerequisite for a favourable economic development and effective monetary policy implementation.

The National Bank Act confers on the SNB the mandate of contributing to the stability of the financial system. The SNB performs this task by analysing sources of risk to the financial system, overseeing systemically important payment and securities settlement systems, and helping to shape the operational framework for the Swiss financial sector. Once a year, the SNB publishes its *Financial Stability Report*, in which it evaluates the stability of the Swiss banking sector and comments on developments and risks in the overall economic environment in general and the Swiss banking sector in particular.

The global financial crisis of 2007/2008 clearly demonstrated the importance of financial stability. In Switzerland, UBS, one of the country's two big banks, saw itself confronted by a very difficult situation. In October 2008, the Federal Council and the SNB together decided on measures to reinforce the country's financial stability. In connection with this package of measures, the SNB set up a stabilisation fund, which took over illiquid assets from UBS.

Cooperation with FINMA and the FDF

The SNB works together with the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Department of Finance (FDF) to create a regulatory environment that promotes stability. The SNB addresses the issue from a systemic perspective, and its focus is therefore on the macroeconomic and macroprudential aspects of regulation. FINMA's responsibilities include the monitoring of individual institutions, i.e. microprudential supervision. At international level, the SNB is a member of various bodies working on issues related to financial stability and financial market regulation.

Oversight of payment and securities settlement systems

In overseeing payment and securities settlement systems, the SNB focuses on systems from which risks to the stability of the financial system may emanate. Risks arise if operational or technical problems in a system lead to serious solvency or liquidity problems for financial intermediaries, or if the serious solvency or liquidity problems of individual financial market participants threaten to spread to other financial intermediaries. Operators of such systems are required to meet the minimum requirements stipulated in the National Bank Ordinance. When overseeing operators with a banking licence, the SNB cooperates closely with FINMA. In the case of payment and securities settlement systems domiciled abroad, it cooperates with the relevant foreign authorities.

Emergency liquidity assistance

Apart from taking prevention measures, the SNB also makes an active contribution to the management of financial crises. In the event of a crisis, the SNB is responsible for maintaining the supply of liquidity. Under certain circumstances, it needs to furnish the market with large amounts of liquidity for this purpose. If necessary, the SNB can also – as lender of last resort – provide emergency liquidity assistance to individual banks. To be eligible, the bank concerned must be systemically important, solvent and able to provide sufficient collateral.

7 International monetary cooperation

Significance

The objective of international monetary cooperation is to promote the functioning of the international monetary system and help overcome crises. As a globally integrated economy, Switzerland derives particular benefit from these aims. The National Bank Act provides the SNB with the mandate to engage in international monetary cooperation. For this purpose, the SNB participates in various international institutions and bodies, and cooperates with the Confederation in matters of bilateral monetary assistance loans. It is a member of the Bank for International Settlements and represents Switzerland on the Financial Stability Board. Together with the Confederation, it is also a member of the International Monetary Fund and the Organisation for Economic Co-operation and Development.

BIS

The Bank for International Settlements (BIS) in Basel serves as the central bank's bank and promotes international monetary and financial cooperation. The SNB participates in various committees of the BIS. These include the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee.

FSB

The Financial Stability Board (FSB) brings together high-ranking representatives of national and international financial institutions. It has been mandated by G20, a group of leading advanced and emerging economies, to promote financial stability, and maintains a secretariat at the BIS in Basel. The FSB provides members with the opportunity to participate in discussions on issues relevant to stability, and to be involved in international financial market regulation.

IMF

The International Monetary Fund (IMF) works to promote the stability of the international monetary system as well as the macroeconomic and financial stability in its member countries. It monitors and reviews economic developments in these countries on a regular basis. Switzerland's representation in the IMF is shared by the SNB and the Federal Department of Finance (FDF). The Chairman of the SNB's Governing Board represents Switzerland on the IMF's Board of Governors, the organisation's highest decision-making body, which consists of a representative from each member country. The Head of the FDF is one of the 24 members of the International Monetary and Financial Committee, the IMF's most important advisory body.

Together with Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan, Switzerland forms one constituency with one seat on the Executive Board. As the constituency member with the most votes, Switzerland has until now appointed the group's executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body. In accordance with the IMF's aim to reduce the number of executive directors representing advanced European economies, in future, Switzerland will share its seat on the Executive Board, and thereby the leadership of the constituency, with Poland. The rotation should come into effect as soon as the planned governance reform in the IMF takes place. The Swiss executive director is appointed alternately by the SNB and the FDF. The SNB and the FDF determine Switzerland's policy in the IMF and support the Swiss executive director in his or her activities.

OECD

Switzerland is a founding member of the Organisation for Economic Co-operation and Development (OECD). On the organisation's intergovernmental committees, it works to promote the development of relations among the member states with regard to economic, social and development policies. Together with the federal government, the SNB represents Switzerland on the Economic Policy Committee, the Committee on Financial Markets and the Statistics Committee.

Technical assistance

On request, the SNB also provides other central banks with technical assistance, particularly in the form of project consulting and courses on central bank related topics.

8 Independence, accountability and relationship with the Confederation

Background

In conducting monetary policy, the SNB performs a public function. The SNB fulfils its monetary policy mandate independently of the Swiss government and parliament. This form of organisation reflects the historic experience that independent central banks are more successful in maintaining price stability than those subordinated to political authorities. The SNB's independence is counterbalanced by its accountability vis-à-vis the Federal Council, parliament and the general public.

Legal basis of the SNB's independence

The SNB's independence is enshrined in the Federal Constitution. It entails various aspects, which are set out in detail in the National Bank Act (NBA). The functional independence consists in the prohibition of the SNB and its statutory bodies to accept instructions from the Federal Council, the Federal Assembly or any other body in connection with the fulfilment of its monetary policy tasks (art. 6 NBA). Its financial independence is evident both in the SNB's budgetary autonomy resulting from its legal status, and in the prohibition from granting loans to the Confederation (art. 11 NBA), which blocks state access to the banknote printing press. The SNB's institutional independence is manifested by the fact that it is an independent legal entity with an organisation of its own. The independence of the SNB in personnel issues, finally, is reflected by the fact that members of the Governing Board and their deputies may be removed from office during their term of office only if they no longer fulfil the requirements of their office, or if they have committed a grave offence (art. 45 NBA).

Accountability

As a counterbalance to its independence, the SNB is accountable to the Federal Council, the Federal Assembly and the general public and is obliged to provide these with information (art. 7 NBA). The SNB reviews the economic situation and monetary policy with the Federal Council, as well as discussing issues relating to the government's economic policies. The members of the SNB's Governing Board hold regular meetings with the Federal Council's Delegation for General Economic Policy. Furthermore, the SNB submits an annual written report (accountability report) to the Federal Assembly on how it has fulfilled its statutory tasks, and it explains its monetary policy to the relevant committees. Finally, the SNB keeps the general public informed on its monetary policy by means of media releases and media conferences, as well as regular publications such as the *Quarterly Bulletin*. By explaining its policy on a regular basis and rendering account of its decisions and their consequences, the SNB makes its activities transparent.

Cooperation with and supervision by the Confederation

As the SNB performs a public function, it is administered with the cooperation of the Confederation and under its supervision. Thus, the Federal Council appoints the majority of the Bank Council members (six out of eleven), including the President and the Vice President, as well as the three members of the Governing Board and the three deputy members. In addition, the Federal Council approves the SNB's organisation regulations. The SNB must also submit its financial report to the Federal Council for approval before it can be approved by the General Meeting of Shareholders. In this way, the Swiss government ensures that the National Bank is managed properly and efficiently.

Banker to the Confederation

The National Bank also acts as the Confederation's bank. It settles the Confederation's payments, participates in issuing money market debt register claims and bonds, manages securities custody accounts for the Confederation and conducts monetary and foreign exchange transactions.

The Confederation's domestic and foreign payment transactions are settled via its sight deposit accounts held with the SNB. The investment of federal funds is governed by an agreement between the Federal Finance Administration and the SNB. This is of particular interest to the SNB, since the Confederation's liquidity management has an impact on the money market. The SNB provides technical and advisory assistance in connection with the issuing of Confederation bonds and money market debt register claims. It also acts as a payment office for coupons and repayments of Confederation bonds.

9 Structure and organisation

Foundation and legal form

The SNB was founded in accordance with the Federal Act on the Swiss National Bank of 6 October 1905, which entered into force in January 1906, after Swiss voters had previously rejected a proposal to establish a state bank. The SNB took up operations on 20 June 1907.

The SNB is a joint-stock company governed by special provisions under federal law. It is administered with the cooperation and under the supervision of the Confederation in accordance with the provisions of the National Bank Act (NBA) of 2004. Its shares are registered shares and are listed on the stock exchange. The share capital amounts to CHF 25 million, approximately two-thirds of which is held by public shareholders (cantons, cantonal banks, etc.). The remaining shares are largely in the hands of private individuals. The Confederation does not hold any shares.

Distribution of profits

The NBA contains a special provision governing the determination of profits (art. 30), which stipulates that the SNB must use its profits primarily to set up provisions permitting it to maintain the currency reserves at the level necessary for monetary policy purposes. The remaining earnings are deemed to be distributable profits. When setting aside provisions, the SNB takes the developments of the Swiss economy into account.

The NBA specifies that the distributable profit – insofar as it exceeds the dividend, which may amount to no more than 6% of the share capital – be disbursed to the Confederation and the cantons, with one-third going to the Confederation and two-thirds to the cantons. The Federal Department of Finance and the SNB shall, for a specified period of time, agree on the amount of any annual profit distribution to the Confederation and the cantons with the aim of balancing these distributions in the medium term. This facilitates budget planning for the Confederation and the cantons.

External organisation

The NBA and the SNB's organisation regulations govern the external organisation of the National Bank. The SNB has two head offices, one in Berne and one in Zurich. It also maintains representative offices in Basel, Geneva, Lausanne, Lucerne, Lugano and St Gallen. These are responsible (as are the head offices) for monitoring economic developments and explaining the SNB's policy in the regions. The SNB also maintains 14 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

General Meeting of Shareholders

The General Meeting of Shareholders is held once a year, as a rule in April. Owing to the SNB's public mandate, the powers of the shareholders' meeting are not as extensive as those of joint-stock companies under private law.

Bank authorities

The Bank Council oversees and monitors the conduct of business by the SNB. It consists of eleven members. Six members, including the President and Vice President, are appointed by the Federal Council, and five by the General Meeting of Shareholders. The Bank Council appoints four committees from its own ranks: the Audit Committee, Risk Committee, Compensation Committee and Nomination Committee.

Executive management

The SNB's management and executive body is the Governing Board. It consists of three members. The Governing Board is responsible in particular for monetary policy, asset management strategy, contributing to the stability of the financial system, and international monetary cooperation. It represents the SNB in the public sphere.

The Enlarged Governing Board, which consists of the three members of the Governing Board and their three deputies, is responsible for defining the strategic guidelines on which the operational management is based. The Board of Deputies is responsible for planning and implementing the strategic guidelines on the SNB's conduct of business. It is also responsible for the SNB's ongoing operations and ensures coordination in all operational matters that are of inter-departmental significance.

Internal organisation

The members of the Governing Board and their deputies are appointed for a six-year term by the Federal Council upon the recommendation of the Bank Council. Re-election is possible.

The SNB is divided into three departments. The organisational units of Departments I and III are, for the most part, located in

Zurich; those of Department II predominantly in Berne. Each of the three departments is headed by a member of the Governing Board, who is assisted in this task by a deputy.

The areas of activity of Department I comprise International Monetary Cooperation, Economic Affairs, Legal and Property Services, and the Secretariat General. It is also responsible for the management of the stabilisation fund set up by the SNB in autumn 2008.

Department II comprises Finance and Risk, Financial Stability, and Cash.

Department III finally comprises the areas of Financial Markets, Banking Operations, and Information Technology.

The Internal Auditors unit reports to the Bank Council's Audit Committee.

The Compliance unit reports to the Chairman of the Governing Board.

Human resources

At the end of 2011, the SNB employed 723 people (including 17 trainees), or 672 in terms of equivalent full-time positions. The SNB's staff is made up predominantly of economists, legal, banking and IT specialists, and technical personnel.

10 Legal basis

Federal Constitution

Article 99 of the Federal Constitution, which covers monetary policy, provides the constitutional basis for the Swiss currency and for the activities of the Swiss National Bank. Under the terms of this article, the SNB is required to pursue a monetary policy that serves the general interests of the country.

In addition, article 99 codifies the SNB's independence and requires it to set aside sufficient currency reserves from its earnings, also specifying that a part of these reserves be held in gold. The objective of both of these elements is to help maintain public confidence in the value of money. Finally, the Federal Constitution also stipulates that the SNB distribute at least two-thirds of its net profits to the cantons.

National Bank Act

The main piece of legislation governing the activities of the SNB is the revised National Bank Act (NBA) of 3 October 2003, which entered into effect on 1 May 2004. It replaced the previous NBA, much of which dated back to 1953.

The NBA specifies the various elements of the SNB's constitutional mandate and its independence (art. 5 (f)). To counterbalance the independence of the SNB, the NBA specifies a duty of accountability and information towards the Federal Council, parliament and the general public (art. 7). The SNB's scope of business is outlined in arts. 9–13 NBA. The instruments used by the SNB to implement its monetary policy and for investing its currency reserves are described in the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* and specified in the *Investment Policy Guidelines*.

The NBA also contains the legal principles relating to the collection of statistical data (arts. 14–16), the definition of minimum reserves for banks (arts. 17–18) and the oversight of payment and securities settlement systems (arts. 19–21). The provisions governing the implementation of these statutory powers can be found in the National Bank Ordinance issued by the SNB's Governing Board.

In addition, the NBA provides more specific detail on the SNB's constitutional mandate to set aside sufficient currency reserves from its earnings. The explicit rules it contains on the calculation of profits allow the SNB to set aside provisions in line with developments in the Swiss economy (art. 30).

Finally, the NBA also lays down the foundations of the SNB's organisational structure (arts. 3, 33–48). Further details can be found in the SNB's organisational regulations issued by the Bank Council and approved by the Federal Council.

Federal Act on Currency and Payment Instruments

The Federal Act of 22 December 1999 on Currency and Payment Instruments lays down the currency unit and contains regulations on the characteristic features of currency and money (legal tender). In addition to coins and banknotes, Swiss franc sight deposits at the SNB are also deemed to be legal tender. Institutions that conduct payment transactions are entitled to open a sight deposit account with the SNB.

Involvement in international monetary cooperation

Under the NBA, the SNB is required to participate in international monetary cooperation (art. 5 para. 3 and art. 10), whereby the SNB works in conjunction with the Federal Council.

Cooperation in the IMF

Switzerland has been a member of the Bretton Woods institutions, i.e. the International Monetary Fund (IMF) and the World Bank, since October 1991. Details regarding the membership are laid down in the Federal Act on Switzerland's Participation in the Bretton Woods Institutions. This act also specifies the terms of cooperation between the Federal Council and the SNB with respect to Switzerland's membership in the IMF. The Federal Council, for example, designates Switzerland's representatives at the IMF in agreement with the SNB. The procedure to be followed by Switzerland when delivering statements at the IMF is laid down in an administrative agreement.

Monetary assistance loans

The SNB participates in international monetary cooperation projects. The division of responsibilities between the SNB and the Confederation is specified in the Federal Act on International Monetary Assistance of 19 March 2004. In the event of serious disruptions in the international monetary system, the Federal Council may instruct the SNB to grant loans or guarantees. A credit line amounting to CHF 2.5 billion has been established for such an eventuality. The SNB may also be requested to grant a loan to the IMF's special funds. In such a case, however, a special guarantee credit must be approved by the Federal Assembly.

Switzerland's membership in the IMF's General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB) is based on special federal decrees. They stipulate that the SNB participates in these Arrangements and that it can extend the associated loans to the IMF. In terms of Special Drawing Rights (SDRs), the SNB participates in the NAB to the amount of SDR 10.9 billion (equivalent to about CHF 15 billion).

Appendix

1 Publications and other resources

Important monetary policy data

The SNB publishes its reference interest rates as well as information on the sight deposits of domestic banks with the SNB and the minimum reserves on a weekly basis.

Annual Report

The *Annual Report* comprises the accountability report and the financial report. With the accountability report, the SNB renders account of the fulfilment of its tasks to the Federal Assembly. The financial report includes the business report and the annual financial statements of the SNB (parent company), which contain the balance sheet, income statement and notes, financial information on the stabilisation fund, and the consolidated financial statements as required under Swiss law. The financial report is submitted for approval first to the Federal Council, then to the General Meeting of Shareholders. The *Annual Report* is published at the beginning of April in German, French, Italian and English.

Quarterly Bulletin

The *Quarterly Bulletin* contains the monetary policy report used for the Governing Board's quarterly monetary policy assessment and the report on business cycle trends by the SNB regional network. The *Quarterly Bulletin* is published at the end of March, June, September and December in German, French and English (the latter version available only on the SNB website). The section on business cycle trends is also published in Italian (online only).

Financial Stability Report

The *Financial Stability Report* provides an assessment of the stability of Switzerland's banking sector. It is published each year in June in English, and subsequently in German and French, too.

Statistical publications

The statistical publications include the *Statistical Monthly Bulletin*, published in a German/French and a German/English version (the latter online only), and the *Monthly Bulletin of Banking Statistics*, also in a German/French and an online-only German/English version. Further annual publications include *Banks in Switzerland* and reports on the country's financial accounts and balance of payments, as well as on Switzerland's international investment position and direct investment. All these reports are published in German, French and English. The *Historical Time Series* spotlights various monetary policy themes from a long-term perspective and provides the associated sets of data. Additional tables and longer time series than in the print versions of several statistical publications can be found on the SNB website.

The Swiss National Bank 1907–2007

The commemorative publication marking the 100th anniversary of the Swiss National Bank deals with the SNB's history and various monetary policy related topics. It is available in bookshops in French, Italian and English; the German version is out of print.

The Swiss National Bank in Berne – an illustrated chronicle

A chronicle of the Swiss National Bank in Berne titled *Die Schweizerische Nationalbank in Bern – eine illustrierte Chronik* was published in collaboration with the Society for Art History in Switzerland to mark the 100th anniversary of the inauguration of the SNB's head office in Berne at Bundesplatz 1. The bilingual (German and French) illustrated book is available in bookshops.

Further resources

The SNB provides further information material on subjects of monetary policy and its own role as Switzerland's central bank. The material is available in German, French, Italian and English.

Where to obtain publications and information

Publications and other sources of information can be obtained from the SNB's library. They are also available online at www.snb.ch, Publications. The commemorative publication is available at www.snb.ch, *The SNB, History, 100th anniversary of SNB's building in Berne*.

2 SNB balance sheet (parent company, aggregated)

as at 31 December 2011

Assets

In CHF millions	2011	2010	2009	2008	2007
Gold holdings and claims from gold transactions	49 380	43 988	38 186	30 862	34 776
Foreign currency investments	257 504	203 810	94 680	47 429	50 586
Various foreign currency assets[1]	8 057	6 038	7 136	1 296	961
Claims from US dollar repo transactions	371	–	–	11 671	4 517
Credit balances from swap transactions	–	–	2 672	50 421	–
Claims from Swiss franc repo transactions	18 468	–	36 208	50 321	31 025
Swiss franc securities	3 675	3 497	6 543	3 597	4 131
Loan to stabilisation fund	7 645	11 786	20 994	15 248	–
Other assets[2]	980	836	846	3 479	931
Total assets	346 079	269 955	207 264	214 323	126 927

1 Reserve position in the IMF, international payment instruments, monetary assistance loans.
2 Claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

Liabilities

In CHF millions	2011	2010	2009	2008	2007
Banknotes in circulation	55 729	51 498	49 966	49 161	44 259
Sight deposits of domestic banks	180 721	37 951	44 993	37 186	8 673
Other sight deposits[1]	30 332	5 619	5 927	5 184	813
Liabilities towards the Confederation	5 648	5 347	6 183	8 804	1 077
SNB debt certificates in Swiss francs	14 719	107 870	7 788	24 425	–
Liabilities from Swiss franc repo transactions	–	13 182	–	–	615
Other term liabilities	366	–	–	29 415	4 608
Foreign currency liabilities[2]	5 286	5 805	26 447	420	1 128
Other liabilities[3]	162	96	64	1 286	81
Provisions for currency reserves	45 061	44 337	41 282	40 275	39 524
Share capital	25	25	25	25	25
Distribution reserve (before appropriation of profit)	–5 000	19 033	14 634	22 872	18 129
Annual result	13 029	–20 807	9 955	–4 729	7 995
Total liabilities	346 079	269 955	207 264	214 323	126 927

1 Sight deposits of foreign banks and institutions, other sight liabilities.
2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.
3 Other liabilities, operating provisions.

3 Organisational chart
(as at 1 July 2012)

- **General Meeting of Shareholders** — **Audit Board**
- **Bank Council** — **Internal Auditors**
- **Governing Board**
- **Enlarged Governing Board**
- **Board of Deputies**

Department I Zurich

- **International Monetary Cooperation**
  - International Monetary Relations
  - International Trade and Capital Flows
  - Technical Assistance
- **Economic Affairs**
  - Monetary Policy Analysis
  - Inflation Forecasting
  - Economic Analysis
  - Statistics
- **Legal and Property Services**
  - Legal Services
  - Human Resources
  - Pension Fund
  - Premises and Technical Services
- **Secretariat General**
  - Communications
  - Documentation
  - Research Coordination and Education
  - Secretariat General Berne
- **StabFund**
- **Compliance**

Department II Berne

- **Finance and Risk**
  - Central Accounting
  - Controlling
  - Risk Management
  - Operational Risk and Security
- **Financial Stability**
  - Banking System
  - Systemically Important Banks
  - Oversight
- **Cash**
  - Procurement and Central Logistics
  - Cash Circulation, East
  - Cash Circulation, West
  - Specialist Support, Operations

Department III Zurich

- **Financial Markets**
  - Money Market and Foreign Exchange
  - Asset Management
  - Financial Market Analysis
- **Banking Operations**
  - Banking Operations Analysis
  - Payment Operations
  - Back Office
  - Master Data
- **Information Technology**
  - Banking Applications
  - Business Support Processes
  - Economic Information Systems
  - Infrastructure

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	St Gallen	Neugasse 43 P.O. Box, 9004 St Gallen	Tel. +41 71 227 25 11 E-Mail st.gallen@snb.ch

Agencies

The Swiss National Bank maintains agencies operated by cantonal banks in Altdorf, Appenzell, Chur, Fribourg, Geneva, Glarus, Liestal, Lucerne, Sarnen, Schaffhausen, Schwyz, Sion, Stans and Zug.

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