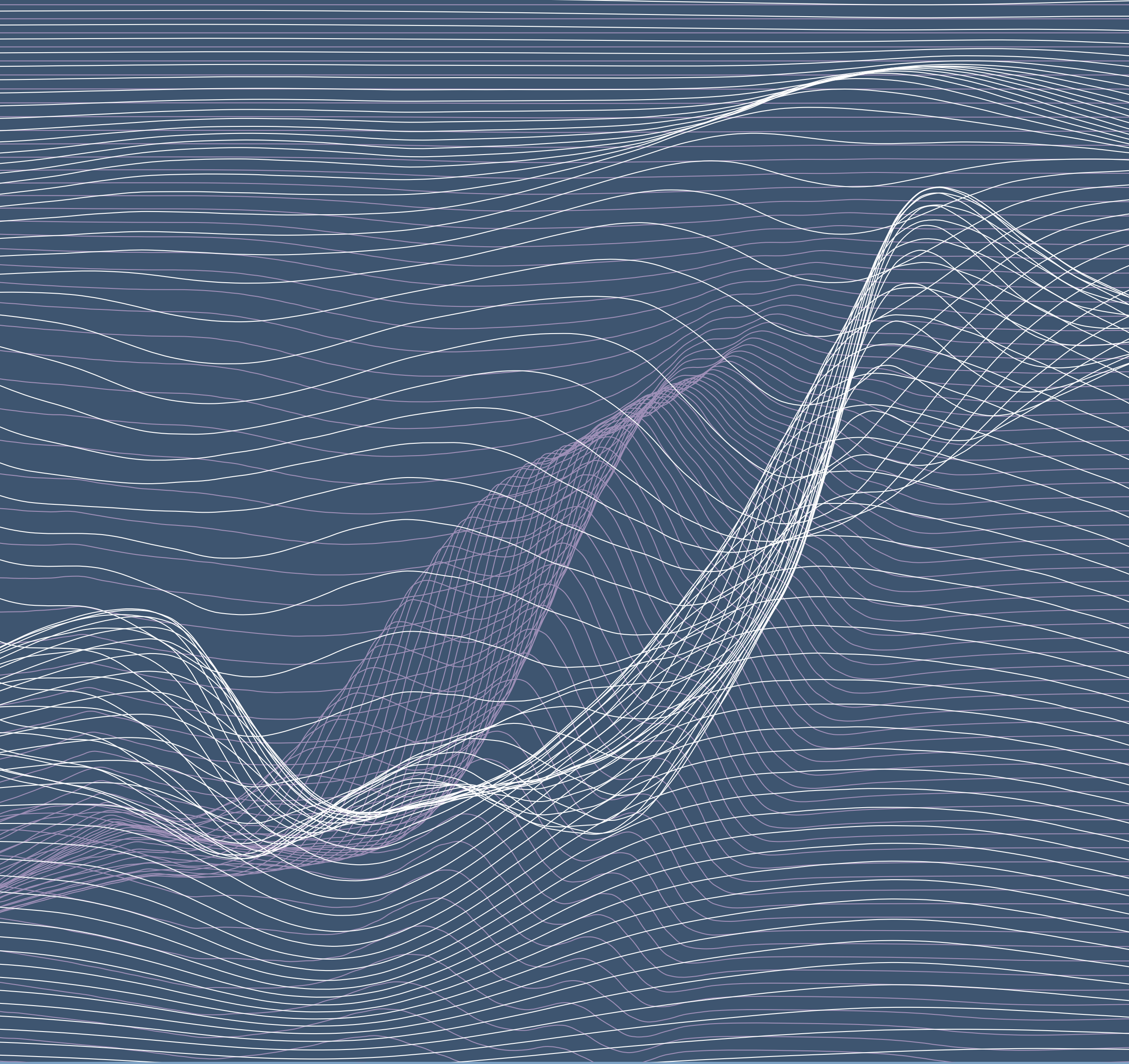

The Swiss National Bank in Brief

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

The Swiss National Bank in Brief

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SCHWEIZERISCHE · NATIONALBANK ·

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 Federal Assembly 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 SNB's mandate and history. 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 looks at the SNB's role in the supply and distribution of cash, while chapter 5 focuses on its role in cashless payment systems. Chapter 6 presents the functions of the SNB's assets and the principles by which they are managed. Chapter 7 illustrates the ways in which the SNB contributes to the stability of the financial system. Chapter 8 specifies the international institutions and bodies in which the SNB is represented. Chapter 9 explains the link between independence and accountability, and the relationship between the SNB and the Swiss Confederation. Chapter 10 describes how the SNB is structured and includes its organisational chart. Chapter 11 summarises the legal foundation on which the SNB's activities are based.

The appendix contains a list of the SNB's most important publications, 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 SNB’s mandate

The SNB conducts the country’s monetary policy as an independent central bank. Its mandate is to conduct monetary policy in such a way that money preserves its value and the economy develops favourably. 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 the SNB’s mandate in more detail: “It 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 which granted credits to the state and managed 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 with one another. As the Swiss economy was growing rapidly and becoming increasingly integrated into the world economy, the interests of the private issuing banks corresponded less and less to the requirements of the country’s 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. However, another 15 years were to pass before the Federal Act on the Swiss National Bank entered into force in early January 1906. Prior to that, Swiss voters had rejected a proposal to establish a state bank.
In June 1907, the Swiss National Bank assumed its function as an independent central bank.

Changes in monetary order

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

The global economy 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, however, is the SNB's responsibility to conduct its monetary policy in a way that keeps the value of money stable and enables the economy to prosper.

2
Monetary policy strategy

Price stability means that money retains its value over time. This is a key condition for growth and prosperity because it is the only way that prices can optimally fulfil their steering function for the production and consumption of individual goods. 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.

How monetary policy works

The SNB ensures price stability by influencing the economy's conditions for obtaining finance. Interest rate reductions lower credit costs, thereby contributing to a rise in the demand for goods and services. Such reductions also often lead to a weakening in the currency, which in turn drives export demand. As a result, output and employment grow. However, if the goods and labour markets are at full capacity, this rise in demand can lead to an increase in prices and wages, resulting in inflation. In the case of interest rate hikes, the mechanism works in the opposite direction. Demand declines and the price level sinks. In order to prevent inflation and deflation, the SNB ensures that the monetary environment is appropriate for the prevailing economic situation. At the same time, it must make sure that imbalances do not develop on the financial and real estate markets.

Monetary policy strategy

The money policy strategy outlines 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 12 quarters, and a target range for a reference interest rate – the three-month Swiss franc Libor (London Interbank Offered Rate).

Minimum exchange rate

On 6 September 2011, the SNB set a minimum exchange rate of CHF 1.20 per euro. If necessary, it prevents the euro/Swiss franc exchange rate from falling below this level by purchasing foreign currency against Swiss francs. Above CHF 1.20 per euro, the exchange rate can continue to move freely. As long as interest rates are close to zero, the minimum exchange rate is an important instrument for ensuring appropriate monetary conditions.

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 the price level – also breaches the objective of price stability. With its definition of price stability, the SNB particularly takes into account the fact that the consumer price index slightly overstates inflation and that inflation cannot be measured precisely.

Conditional inflation forecast

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

The SNB's inflation forecast is a conditional forecast. It assumes that the reference interest rate which the SNB is aiming for at the time of publishing will remain unchanged over the next three years. It therefore shows how the SNB expects consumer prices to move in the event that monetary policy does not change. Consequently, it cannot be directly compared with forecasts by commercial banks or research institutions, as these institutions generally factor anticipated interest rate movements into their 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 stimuli to output and prices. Since monetary policy has a lagged effect, the SNB adopts a forward-looking stance and bases its decision-making on an inflation forecast over a three-year period.

For a country like Switzerland with its strong international integration, economic 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 price levels. 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 inflation forecast 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 will consider tightening its monetary policy. Conversely, it will schedule a monetary easing if deflationary trends are identified. However, the SNB does not react mechanically to the inflation forecast. When taking its monetary policy decisions, it also considers potential risks for the forecast and other factors not included in the forecasting models.

Target range for three-month Libor

To implement its monetary policy, the SNB sets a target range for the three-month Swiss franc Libor on a quarterly basis. Under normal circumstances, the target range has a width of one percentage point. The SNB generally holds the Libor in the middle of the target range. Since August 2011, a narrow target range of 0.0–0.25% has applied.

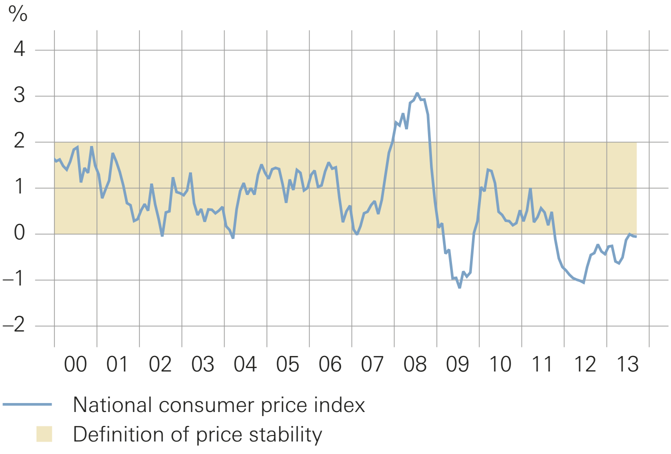
The Libor rates are calculated in London on a daily basis for a number of currencies, based on information provided by international banks on their interest rate conditions. In Switzerland, Swiss franc Libors are an important benchmark for many credit relationships in the economy and therefore play a key role in monetary policy transmission. However, confidence in the Libor has suffered over the recent period following the reported manipulation attempts. Consequently, the SNB is supporting international measures to reform the Libor.

Quarterly assessments

The SNB conducts an in-depth monetary policy assessment in March, June, September and December. It makes its monetary policy decision on the basis of this assessment. The SNB provides the reasons for its decision in a press release, which also contains the conditional inflation forecast. In June and December, the SNB also holds a news conference at which it explains its monetary policy. In addition, the SNB may take monetary policy measures at any time between regular assessment dates, if circumstances so require. Economic developments and the background to the monetary policy decision are analysed in the report on monetary policy which is published in the *Quarterly Bulletin*.

CONSUMER PRICES

Year-on-year change



Source: SNB

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Implementation of monetary policy

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. The SNB influences the three-month Libor by means of the interest rates charged for liquidity-providing and liquidity-absorbing money market operations. The type of management depends on monetary policy requirements and the liquidity situation in the banking system. If the banking system is undersupplied with liquidity, the SNB generally provides liquidity through short-term money market transactions. If, however, the banking system is oversupplied with liquidity, the SNB absorbs liquidity through money market transactions.

Sight deposits at the SNB

A bank's most liquid assets are sight deposits at the SNB. They are readily available for payment transactions and represent legal payment instruments. Banks also hold sight deposits as a liquidity reserve and in order to fulfil the statutory minimum reserve requirements. The SNB influences sight deposits through the use of its monetary policy instruments. Sight deposits at the SNB bear no interest. In addition to banks' domestic sight deposits, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities. The total level of sight deposits has an impact on developments in the Swiss franc money market.

Minimum reserves

Through the minimum reserve requirement laid down in the National Bank Act (NBA), Swiss legislation ensures that banks hold a minimum amount of central bank money. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the SNB. At present, the minimum reserve requirement is 2.5% of relevant short-term liabilities, which are calculated as the sum of short-term liabilities in Swiss francs (up to 90 days) plus 20% of liabilities towards customers in the form of savings and investments.

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 with headquarters abroad may be admitted to monetary policy operations, provided there is a monetary policy interest in doing so and they contribute to liquidity on the secured Swiss franc money market.

Access to monetary policy operations

The transactions the SNB is allowed to conduct for the implementation of its monetary policy are specified in art. 9 NBA. The 'Guidelines of the Swiss National Bank (SNB) on monetary policy instruments' describe the instruments and procedures used to implement the SNB's monetary policy. These guidelines are supplemented by instruction sheets written for the SNB's counterparties.

Monetary policy instruments

Within its set of monetary policy instruments, the SNB distinguishes between open market operations and standing facilities. In the case of open market operations, the SNB takes the initiative in the transaction. Regular open market operations include repo transactions and the issuance of SNB Bills. Further open market operation instruments, such as foreign exchange swaps and foreign exchange transactions, are available if necessary.

Open market operations and standing facilities

Enforcement of minimum exchange rate

Since 6 September 2011, all monetary policy instruments have been directed towards the task of safeguarding the minimum exchange rate of CHF 1.20 per euro. At times, extensive foreign currency purchases were needed in order to enforce the minimum exchange rate. Since June 2012, the SNB has abstained from concluding any money market transactions. The extensive foreign currency purchases led to a substantial increase in the liquidity in the banking system. This can be seen in the current high level of sight deposits being held at the SNB.

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 banks take the initiative in the transaction. The liquidity-shortage financing facility serves to bridge unexpected liquidity bottlenecks, while the intraday facility eases interbank payment transactions in the SIC system and foreign exchange transactions in the global foreign exchange settlement system (Continuous Linked Settlement); cf. chapter 5.

Repo transactions

In the case of a liquidity-providing repo transaction, the SNB purchases securities from a bank or another institution admitted as counterparty and credits the countervalue to the latter's sight deposit account. At the same time, it is agreed that the SNB will sell securities of the same type and quantity back to the bank 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 a liquidity-absorbing repo transaction, the SNB sells securities to a bank and debits the countervalue from 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 level of the repo interest rate, the volume and the term of the transactions are dictated by monetary policy requirements. The terms of repo transactions vary from one day 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 may also issue its own interest-bearing debt certificates in Swiss francs (SNB Bills). Like liquidity-absorbing repo transactions, the issuance of SNB Bills also serves to absorb liquidity. SNB Bills have various terms, but none exceeding 12 months. To increase liquidity, the SNB can repurchase SNB Bills via the secondary market.

Foreign exchange transactions

The SNB can purchase or sell foreign currency against Swiss francs on the financial markets. It concludes foreign exchange transactions with a wide range of domestic and foreign counterparties.

Foreign exchange swaps

In a foreign exchange swap, the purchase (sale) of foreign currency at the current spot rate and the sale (purchase) of the foreign currency at a later date are simultaneously agreed.

Conducting open market operations

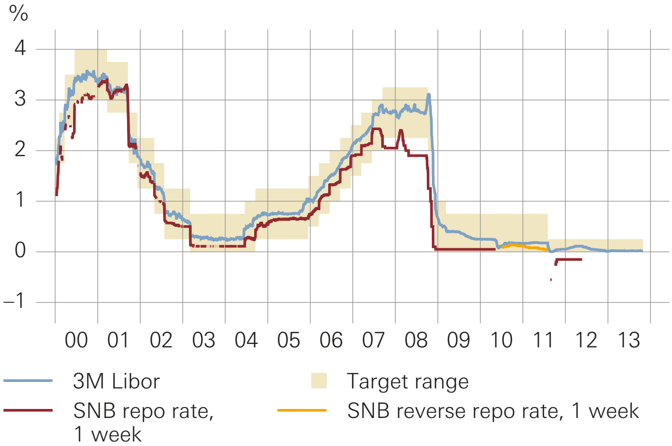
The SNB can carry out its open market operations in the form of auctions or bilateral transactions. Transactions on the money market are usually concluded via an electronic trading platform.

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. The 'Guidelines of the Swiss National Bank (SNB) on monetary policy instruments' outline the types of securities that are eligible as collateral for SNB transactions. Details on the criteria governing securities admitted to repo transactions are contained in the 'Instruction sheet on collateral eligible for SNB repos'. Only securities included in the 'List of collateral eligible for SNB repos' are accepted as collateral for repo transactions. Since the SNB also admits banks whose headquarters are located abroad to its monetary policy operations, it accepts securities in foreign currencies in addition to those 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.

MONEY MARKET RATES

Daily rates



Source: SNB

4
Ensuring the supply and distribution of cash

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. The SNB is also charged by the Confederation with the task of coin distribution.

Distribution and redemption of banknotes and coins

Banknotes and coins are supplied to the economy via the two cash distribution services at the Berne and Zurich head offices, as well as 14 agencies operated by cantonal banks on behalf of the SNB. The National Bank issues banknotes and coins commensurate with demand for payment purposes, offsets seasonal fluctuations and withdraws banknotes and coins no longer fit for circulation.

The large-scale distribution of banknotes and coins is undertaken by the SNB. Commercial banks, Swiss Post and cash processing operators play the role of retailer.

Production of banknotes and coins

Swiss banknotes are printed by Orell Füssli Security Printing Ltd. The Confederation is responsible for the minting of coins, which is carried out by Swissmint, the Federal Mint, located in Berne.

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. In cooperation with third parties, the SNB has developed new security features that enable the upgrade of existing banknotes' security features, and better protect new banknotes. The SNB is currently working on a new banknote series.

Significance of cash

Recent decades have seen a decline in all advanced economies in the share of transactions settled in cash. Nevertheless, banknotes still remain an important means of payment. By international standards, Switzerland has a high amount of banknotes in circulation; in 2012, the average value of Swiss banknotes in circulation amounted to CHF 54.7 billion. This corresponds to around 9% of nominal GDP. The demand for banknotes has increased in the last few years, for reasons like the financial crisis and low interest rates.

5
The SNB's role in the cashless payment system

The SNB has the task of ensuring and facilitating the functioning of cashless payment systems. It fulfils this duty primarily by serving as commissioning party and system manager of the SIC (Swiss Interbank Clearing) system.

Swiss Interbank Clearing

SIC is the central payment system in Switzerland for payments in Swiss francs. Via SIC, banks and other financial market participants conduct large-value payments (also called interbank payments) as well as a sizeable share of retail payment (low value) transactions. The latter mainly take the form of payment orders like direct debits, standing orders and payment orders. Similarly, some liabilities arising from card transactions are bundled and settled among system participants via SIC. The SNB also uses SIC 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 individually and irrevocably in real time, and are therefore equivalent to cash payments. Payments are settled through the SIC settlement accounts, with the corresponding effect on the sight deposit accounts at the SNB.

The SNB steers SIC in its capacity as commissioning party and system manager. At the start of each settlement day, it transfers liquidity from SIC participants' sight deposit accounts at the SNB to their settlement accounts in SIC, and at the end of the settlement day, it transfers the turnover from the individual settlement accounts back to the sight deposit accounts.

The SNB has entrusted the operation of SIC to SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd (SIX). SIX was jointly set up by Swiss banks, and operates key components in the Swiss financial market infrastructure.

As a systemically important financial market infrastructure, SIC is overseen by the SNB (cf. chapter 7).

SIC has a link to SECOM, the securities settlement system operated by SIX SIS Ltd. This link ensures that securities transactions are settled according to the delivery-versus-payment principle, i.e. the transfer of securities in SECOM takes place if, and only if, payment in SIC was effected. This eliminates the principal risk in securities transactions.

Link to SECOM and CLS

Also of importance is Continuous Linked Settlement (CLS), a global foreign exchange settlement system which eliminates settlement risk in foreign exchange transactions by using the payment-versus-payment mechanism. The settlement of amounts in Swiss francs (against another CLS settlement currency) is made possible via a link between SIC and CLS Bank, which operates CLS.

6
Asset management

Just like any corporation, the SNB has assets. A large proportion of these assets, however, is not held directly for operational purposes, but fulfils important monetary policy functions. They consist mainly of gold and foreign currency investments and, to a lesser extent, financial assets in Swiss francs. Their size and composition are determined by monetary policy requirements and the established monetary order.

Currency reserves

Switzerland's currency reserves comprise foreign currency investments (foreign exchange reserves), gold holdings, the reserve position in the International Monetary Fund (IMF) and IMF Special Drawing Rights. The SNB's gold holdings are mainly in the form of gold bars, with the remainder in gold coins. Switzerland receives Special Drawing Rights as a member of the IMF. They are managed by the SNB (cf. chapter 8). The currency reserves are made up primarily of euros and US dollars, which are invested in the associated bond and equity markets. The substantial foreign currency purchases that were needed in order to enforce the minimum exchange rate led to a sharp rise in foreign currency investments.

Currency reserves

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 centre. Currency reserves have a confidence-building and stabilising effect and serve to prevent and overcome crises. At present, the level of the currency reserves is dictated directly by the implementation of monetary policy, i.e. the enforcement of the minimum exchange rate.

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).

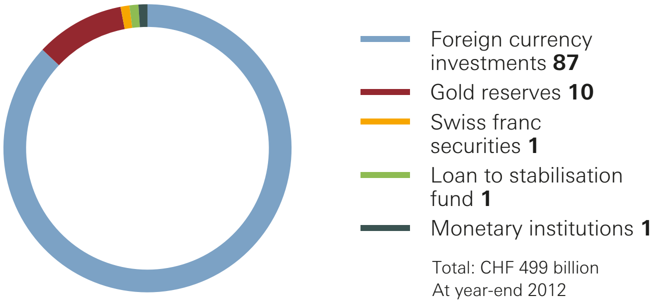
Investment policy

The SNB's investments are carried out in accordance with the criteria of security, liquidity and return. Its own 'Investment policy guidelines' define the scope for its investment activity and for the investment and risk control process. 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 currency reserves is held in secure and liquid US and European government securities. The average duration of the investments is several years. The SNB invests part of the foreign currency reserves in other currencies and high-yield securities, including, for the past few years, corporate bonds and shares of foreign corporations. Broad diversification of currencies, issuers and instruments allows the SNB to achieve higher returns in the long term, without incurring appreciable additional risk. However, for reasons of overriding importance, it may be necessary to deliberately assume certain risks and to bear any associated losses. Thus, the SNB cannot hedge against the sharply increased risk of a Swiss franc appreciation caused by the enforcement of the minimum exchange rate, as this would have undesirable monetary policy consequences. Given the increased balance sheet risk, the SNB aims at strengthening its capital position over the long term.

BREAKDOWN OF SNB ASSETS

In percent



7
The SNB's contribution to financial stability

Financial stability means that financial system participants, i.e. banks and financial market infrastructures, can perform their functions and are able to withstand potential disturbances. It is an important prerequisite for economic development and effective monetary policy implementation.

Particular significance of systemically important banks

The National Bank Act (NBA) 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 financial market infrastructures, and helping to shape the operational framework for the Swiss financial centre. A particular focus of attention is the resilience of systemically important banks. Every year, the SNB publishes a financial stability report, in which it assesses Swiss banking sector stability and discusses developments and risks in the economic environment as a whole and the Swiss banking sector in particular.

Stabilisation fund

The 2007/2008 international financial crisis highlighted the importance of financial stability. In Switzerland, one of the big banks, UBS, found itself facing considerable difficulties, necessitating an intervention by the Swiss authorities. In October 2008, the Federal Council, the Swiss Federal Banking Commission (now FINMA) and the SNB together decided on measures to strengthen the country's financial stability. As part of this package of measures, the SNB set up a stabilisation fund (StabFund), which took over illiquid assets from UBS. To finance the asset transfer, the SNB granted a loan of USD 25.8 billion to the stabilisation fund. In addition, there were contingent liabilities initially amounting to USD 8.9 billion. By August 2013, through interest payments, redemptions of stabilisation fund investments and sales of assets, the SNB loan was paid off, and the SNB's total risk exposure was completely eliminated.

The SNB works together with the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Department of Finance (FDF) to create an 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, financial market regulation and financial market infrastructures.

Regulatory measures to strengthen financial stability
The Basel Committee on Banking Supervision is a central standard-setting body for banking regulation; in 2010, in response to the financial crisis, it issued a revised version of the Basel International Capital Framework (Basel III). Basel III raised the capital and liquidity requirements for banks worldwide. Switzerland is gradually phasing in the Basel III standards, and in some areas has introduced stricter requirements (the 'Swiss Finish'). Most Swiss banks must hold additional capital, and systemically important banks are subject to an even stricter set of capital requirements. Moreover, they must comply with special regulations on liquidity, organisation and risk diversification. This reduces the risk of having to rescue a bank which is too big and too important to the economy for it to be allowed to go bankrupt (the 'too big to fail' issue).

Basel III also makes provision for macroprudential measures, such as the countercyclical capital buffer. This requires banks to increase their capital base in the event of imbalances being observed on the credit markets. In February 2013, the Federal Council activated the countercyclical capital buffer at the proposal of the SNB, in order to counter the risk of imbalances on the residential mortgage and real estate markets.

Oversight of financial market infrastructures

In overseeing financial market infrastructures, the SNB focuses on systems which might pose a risk to the financial sector. Risks can arise, for example, when operational, technical or financial problems in a system spill over to financial intermediaries or other financial market infrastructures. This can result in serious disruption on the financial markets. Operators of such systems must fulfil minimum requirements, which are defined in the implementing provisions (the National Bank Ordinance) to the NBA. When overseeing operators with a banking licence, the SNB cooperates with FINMA. In the case of financial market infrastructures domiciled abroad, it cooperates with the relevant foreign authorities.

Emergency liquidity assistance

Apart from taking preventive measures, the SNB also makes an active contribution to the resolution 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 post sufficient collateral to cover the liquidity provided.

8
International monetary cooperation

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 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, together with the Confederation, represents Switzerland on the Financial Stability Board. Also in conjunction with the Confederation, the SNB is 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 the national authorities responsible for financial stability, international organisations and standard-setting bodies. 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. Membership in the FSB provides Switzerland 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. The IMF grants loans to countries faced with balance of payments difficulties, relying on the funds of its members to do so. In connection with the European sovereign debt crisis, demand for IMF loans and thus the funding requirements have risen considerably.

Switzerland in the IMF

Switzerland is jointly represented in the IMF by the Confederation and the SNB. The Chairman of the SNB's Governing Board is a member of the IMF's highest decision-making body, the Board of Governors, which consists of a representative from each member country. The Head of the Federal Department of Finance (FDF) is one of the 24 members of the International Monetary and Financial Committee (IMFC), the IMF's most important advisory body. Together with Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan, Switzerland forms a constituency with one seat on the Executive Board. As the constituency member with the most votes, Switzerland appoints the group's executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body, and the Swiss executive director is appointed alternately by the FDF and the SNB. The FDF and the SNB determine Switzerland's policy in the IMF and support the Swiss executive director in his or her activities. In future, Switzerland will share its seat on the Executive Board, and thus its responsibilities, with Poland, as part of the IMF's aim to reduce the number of executive directors representing advanced European economies. The rotation will be put into operation as soon as the corresponding reform by the IMF comes into effect.

The Organisation for Economic Co-operation and Development (OECD) works on a number of committees to promote the development of relations among the member states with regard to economic, social and development policies. Together with the Confederation, the SNB represents Switzerland on the Economic Policy Committee, the Committee on Financial Markets, and the Statistics Committee.

OECD

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

Collaboration with central banks

9
Independence, accountability and relationship with the Confederation

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 better able to maintain price stability than those subordinated to political authorities. The SNB's independence is counterbalanced by its duty of accountability.

Legal basis of 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 prohibits the SNB and its statutory bodies from accepting instructions issued by 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). State access to the banknote printing press is thus blocked. The SNB's institutional independence is indicated 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 fixed term only if they no longer fulfil the requirements of their office or have committed a grave offence (art. 45 NBA).

Accountability and provision of information

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 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 explains its monetary policy to the relevant committees. The SNB keeps the general public informed by means of media releases, media conferences and speeches, as well as regular publications on its monetary policy, 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 is 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 and deputy members of the Governing Board. 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 SNB is managed properly and efficiently.

Banker to the Confederation

The SNB also acts as the Confederation's bank. It settles the Confederation's payments, participates in issuing bonds and money market debt register claims, manages its securities custody accounts and conducts monetary and foreign exchange transactions. Banking services to the Confederation are governed by an agreement between the Federal Finance Administration and the SNB.

The Confederation's domestic and foreign payment transactions are carried out via its sight deposit accounts held with the National Bank. The SNB provides technical and advisory assistance in connection with the issuing of bonds and money market debt register claims. It also acts as a payment office for coupons and repayments of Confederation bonds.

10
Structure and organisation

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). Its shares are registered and are listed on the Swiss 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, first of all, to set up provisions permitting it to maintain the currency reserves at a level necessary for monetary policy purposes. When setting aside provisions, the SNB takes into account the development of the Swiss economy as well as the increased risks in the SNB's balance sheet ensuing from the measures taken to combat the financial crisis. The remaining earnings are distributable profit.

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 agree on the amount of any annual profit distribution to the Confederation and the cantons for a specified period of time, with the aim of smoothing these distributions in the medium term. This facilitates budget planning for the Confederation and the cantons. In accordance with the agreement currently in force, the Confederation and the cantons are to receive an annual total of CHF 1 billion.

Organisational structure

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

The SNB is divided into three departments. For the most part, the organisational units of Departments I and III are located in Zurich, while those of Department II are mainly 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.

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 far less extensive than those of joint-stock companies under private law.

Bank Council

The Bank Council oversees and controls 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 sets up 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 consists of the three members of the Governing Board and their three deputies, and is responsible for issuing the strategic guidelines for the SNB's business operations. The Board of Deputies is responsible for planning and implementing these strategic guidelines, and ensures coordination in all operational matters of interdepartmental importance.

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

Number of staff

At end-October 2013, the staff at the SNB totalled 822 (including 19 trainees), or 762.3 in terms of full-time equivalents. The SNB's workforce is made up predominantly of economists, legal, banking and IT specialists, and technical personnel.

Organisational chart

GENERAL MEETING OF SHAREHOLDERS — **AUDIT BOARD**

BANK COUNCIL — **INTERNAL AUDITORS**

GOVERNING BOARD

ENLARGED GOVERNING BOARD

BOARD OF DEPUTIES

DEPARTMENT I ZURICH

Economic Affairs	International Monetary Cooperation	Legal and Property Services	Secretariat General	Compliance	StabFund
Monetary Policy Analysis	International Monetary Relations	Legal Services	Secretariat Supervisory and Management Bodies		
Inflation Forecasting	International Trade and Capital Flows	Human Resources	Communications		
Economic Analysis	Central Bank Cooperation	Pension Fund	Documentation		
Statistics		Premises and Technical Services	Research Coordination and Economic Education		

DEPARTMENT II BERNE

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

DEPARTMENT III ZURICH

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

11
Legal basis

The SNB's mandate is derived from the Federal Constitution. The Federal Act on the Swiss National Bank (National Bank Act, NBA) of 3 October 2003 and the associated implementation decrees represent the main legislation governing the activities of the SNB.

Federal Constitution

In accordance with art. 99 of the Federal Constitution, the SNB is required to pursue a monetary policy that serves the overall interests of the country.

In addition, art. 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 SNB's independence and its currency reserves are intended to help maintain public confidence in the value of money. Finally, the Constitution also stipulates that the SNB distribute at least two-thirds of its net profits to the cantons (cf. chapter 10 for distribution of profits).

NBA and implementation provisions

The activities of the SNB are primarily governed by the NBA. It specifies the various elements of the SNB's constitutional mandate (art. 5), the SNB's independence (art. 6) and its 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 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).

Details on these statutory powers can be found in the National Bank Ordinance (NBO) issued by the SNB's Governing Board.

In addition, the NBA provides specific details on the SNB's constitutional mandate to set aside sufficient currency reserves from its earnings. In arts. 30 and 31, it contains explicit rules on the determination and distribution of profits.

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

For the implementation of its monetary policy, the SNB relies primarily on instruments based on contractual transactions. These are governed by art. 9 NBA. Details hereto can be found in the guidelines on monetary policy instruments and the investment policy guidelines.

Federal Act on Currency and Payment Instruments

The Federal Act on Currency and Payment Instruments of 22 December 1999 lays down the Swiss franc as 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 process payment transactions are entitled to open a sight deposit account with the SNB.

Legal basis of international monetary cooperation

Details regarding Switzerland's membership in the International Monetary Fund (IMF) and the World Bank Group are laid down in the Federal Act on Switzerland's Participation in the Bretton Woods Institutions of 4 October 1991. This Act also specifies the terms of cooperation between the Federal Council and the SNB with regard to 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.

The division of responsibilities between the SNB and the Confederation regarding the granting of international monetary assistance loans 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 10 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 important monetary policy data on a weekly basis, including the SNB's reference interest rates, the Swiss Average Rates, as well as information on the sight deposits with the SNB and the minimum reserves.

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, which contain the balance sheet, income statement and notes. 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 from the vantage point of the delegates for regional economic relations. 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 report 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 *Monthly Statistical 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*, the *Swiss Financial Accounts*, the *Swiss Balance of Payments*, *Switzerland's International Investment Position* and *Direct Investment*. All these reports are published in German, French and English. The *Historical Time Series* publications examine various monetary policy themes from a long-term perspective and provide 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.

SNB Economic Studies, SNB Working Papers

Swiss National Bank Economic Studies and *Swiss National Bank Working Papers* present articles on economic issues and research results at irregular intervals. They appear in one language only, usually English.

Speeches

The members of the Governing Board regularly give speeches on monetary policy issues.

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 entitled *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.

iconomix

iconomix is an educational programme offered by the SNB. The modular teaching and training programme presents the basic principles and concepts of economics in a fun way. Although primarily aimed at teachers and students in upper secondary schools, it is also accessible to anyone interested in finding out more about economics. iconomix is available online in full in German and French, and partially in Italian and English at www.iconomix.ch.

Environmental report

The SNB's environmental report (German and French) contains data and indicators on the use of resources and on greenhouse gas emissions of the SNB. It describes the foundations upon which the SNB's environmental management is based, explains the SNB's strategy in connection with climate change and lists measures and projects aimed at improving its environmental performance.

Glossary

The online glossary explains important terms from the world of finance and monetary policy. It is available in German, French, Italian and English at www.snb.ch.

Questions and answers

The online questions and answers discuss topics of importance to the SNB and are available in German, French and English at www.snb.ch, *General Public*.

Further resources

The SNB has a range of further resources available in German, French, Italian and English.

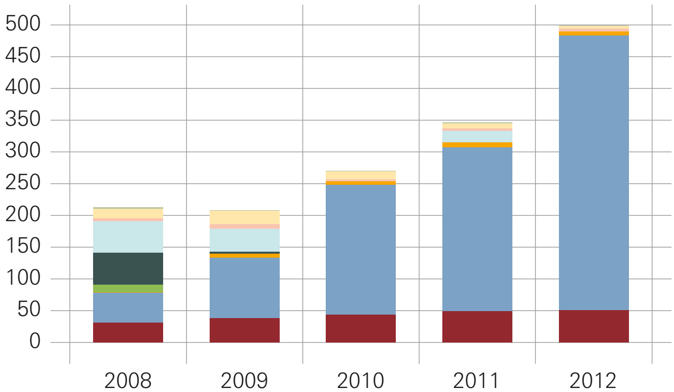
Obtainable from

Publications and other resources can be obtained through the SNB's library. They are available online at www.snb.ch, *Publications*. Publications on historical matters can be found at www.snb.ch, *The SNB, History, Publications*. Speeches are published at www.snb.ch, *Suggested pages, Speeches*.

2 SNB BALANCE SHEET (PARENT COMPANY, AGGREGATED)

BALANCE SHEET ASSETS AT YEAR-END

In CHF billions



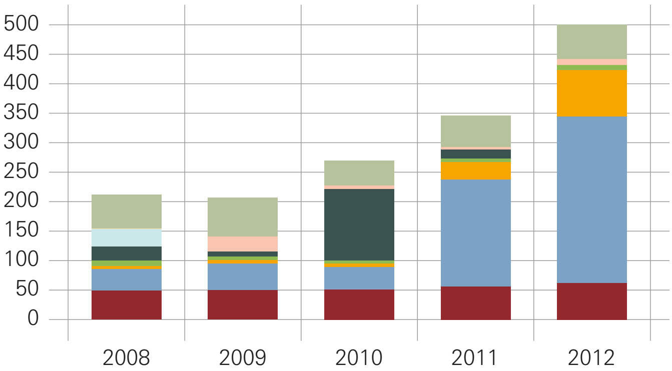
- Gold holdings and claims from gold transactions
- Foreign currency investments
- Various foreign currency assets [1]
- Claims from US dollar repo transactions
- Credit balances from swap transactions
- Claims from Swiss franc repo transactions
- Swiss franc securities
- Loan to stabilisation fund
- Sundry [2]

Source: SNB

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

BALANCE SHEET LIABILITIES AT YEAR-END

In CHF billions



- Banknotes in circulation
- Sight deposits of domestic banks
- Other sight deposits [1]
- Liabilities towards the Confederation
- SNB debt certificates in Swiss francs and liabilities from Swiss franc repo transactions
- Other term liabilities
- Foreign currency liabilities [2]
- Sundry [3]
- Equity [4]

Source: SNB

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.
4 Provisions for currency reserves, share capital, distribution reserve (before appropriation of profit), annual result.

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