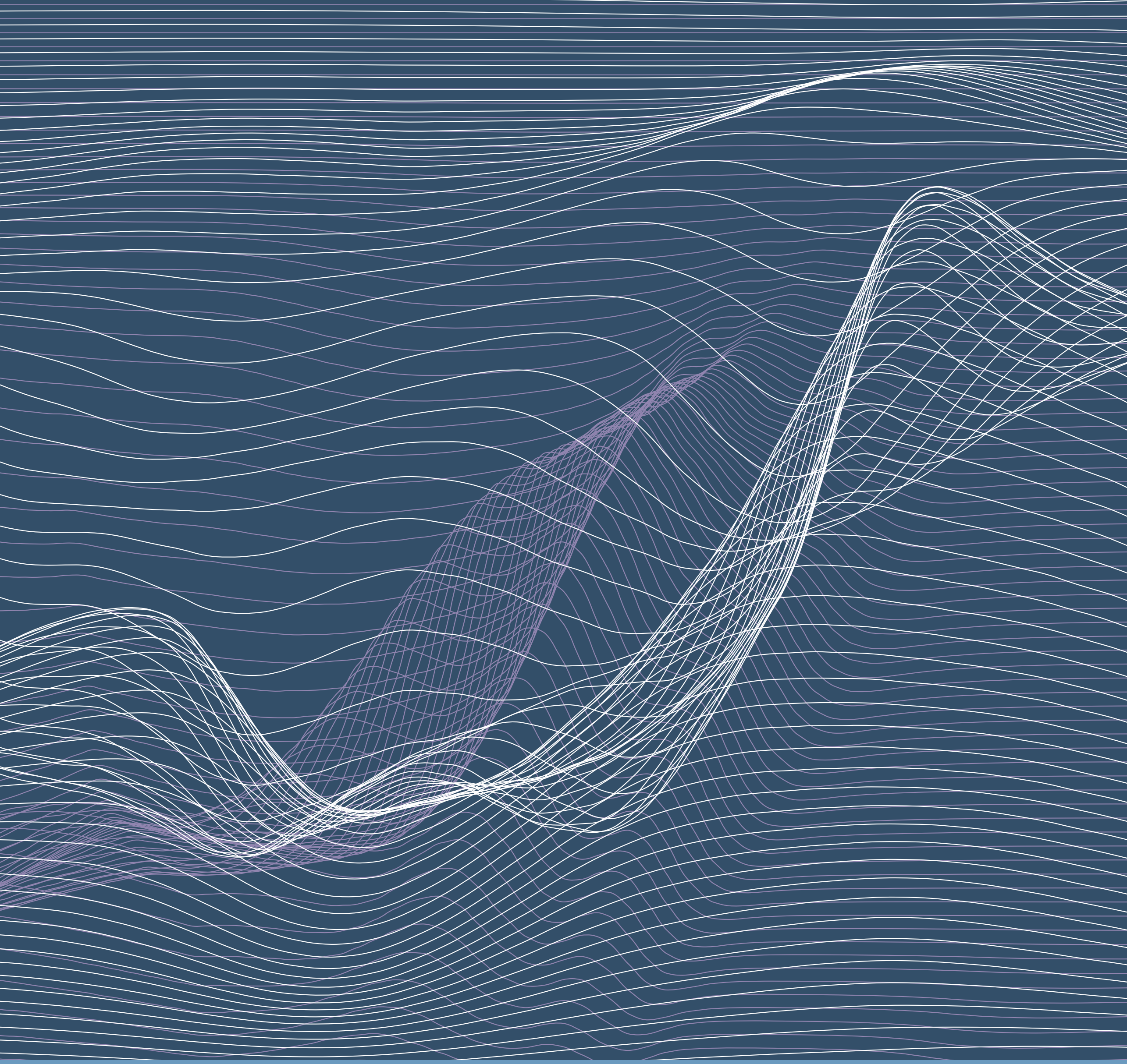


The Swiss National Bank in Brief

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

The Swiss National Bank in Brief

SNB BNS

Contents


· 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 introduces 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 goal 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 outlines 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 key addresses.

This brochure is available in German, French, Italian and English from the SNB library. It is also available, together with additional information, at 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 loans to the state and managed state assets. Others were set up to enhance the stability of the banking system and to counteract the 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, and 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, as 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 circulation of money 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 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. Macroprudential instruments like the countercyclical capital buffer are used to target imbalances on the financial and real estate markets (cf. chapter 7).

Monetary policy strategy

The monetary policy strategy outlines the manner in which the SNB fulfils 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 the reference interest rate, namely, the three-month Swiss franc Libor (London Interbank Offered Rate).

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, providing 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 decisions on the development of the inflation forecast.

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. Different scenarios for global economic development assist in gauging the risks for the purposes of the prognosis.

If the inflation forecast shows values that lie outside the price stability range, an adjustment of monetary policy may be necessary. The SNB does not, however, react mechanically to the inflation forecast. When taking its monetary policy decisions, it also considers other risks and 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. The target range usually extends over one percentage point.

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 continue to be an important benchmark for many credit relationships in the economy. However, confidence in the Libor has suffered over the recent period following instances of manipulation. The SNB supports international measures to reform the Libor.

Minimum exchange rate against the euro

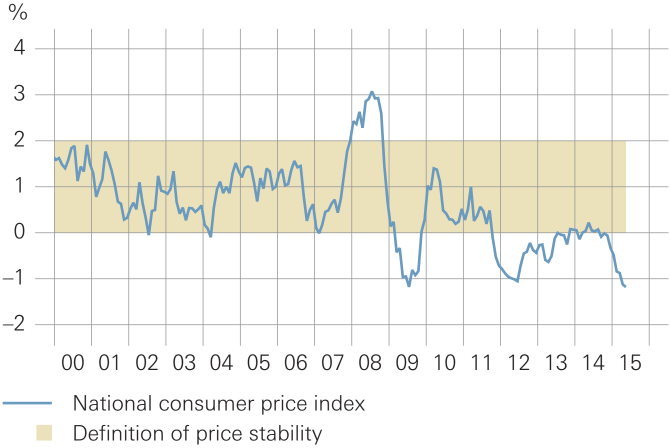
From 6 September 2011 to 15 January 2015, the minimum exchange rate against the euro served as an additional operational objective for the implementation of monetary policy. It was introduced in exceptional circumstances, a period of very substantial overvaluation of the Swiss franc and utmost uncertainty in the global economy and financial markets. For the SNB, the minimum exchange rate was an important tool for preventing an undesirable tightening of monetary conditions. Enforcing the minimum exchange rate, however, entailed substantial purchases of foreign currency and a considerable expansion of the SNB balance sheet

Quarterly assessments

The SNB conducts an in-depth monetary policy assessment in March, June, September and December. Its monetary policy decision is based on this assessment. The reasons for its decision are provided in a press release, which also contains the conditional inflation forecast. In June and December, the SNB also holds a news conference to explain 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

3
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 its 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 statutory minimum reserve requirements. The SNB influences sight deposits through the use of its monetary policy instruments. In addition to banks' domestic sight deposits, total sight deposits also include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities. The level of sight deposits influences activity on 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.

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 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.

Monetary policy instruments

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.

Open market operations and standing facilities

Within its set of monetary policy instruments, the SNB distinguishes between open market operations and standing facilities. In the case of the former, 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.

High liquidity in the banking system

The SNB's large-scale purchases of foreign currency since 2009, and particularly from September 2011 to January 2015 in connection with enforcing the minimum exchange rate, have led to a substantial increase in the liquidity in the banking system. This can be seen in the current high levels of sight deposits held at the SNB. There has therefore been no need in recent years to conduct repo transactions within the context of open market operations.

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 SIC (Swiss Interbank Clearing) and foreign exchange transactions in CLS (Continuous Linked Settlement), the global foreign exchange settlement system (cf. chapter 5).

Conducting open market operations

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

Repo transactions

In the case of liquidity-providing repo transactions, 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 issuance of its own debt certificates in Swiss francs (SNB Bills) allows the SNB to absorb liquidity. Maturities can be up to one year. To increase liquidity, the SNB can repurchase SNB Bills via the secondary market.

Interest rate on sight deposits at the SNB

At the end of 2014, by amending its Terms of Business, the SNB established the necessary preconditions for imposing an interest rate on sight deposits held at the SNB. Since 22 January 2015, the SNB has charged an interest rate of –0.75% on sight deposit accounts held by banks and other financial market participants at the SNB which exceed a given exemption threshold. For banks subject to minimum reserve requirements, the exemption threshold was set at 20 times the statutory minimum reserve amount. Holders of sight deposit accounts that are not subject to the minimum reserve requirement were granted a fixed exemption threshold. The negative interest rate makes Swiss franc investments less attractive and thereby eases the upward pressure on the Swiss franc.

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

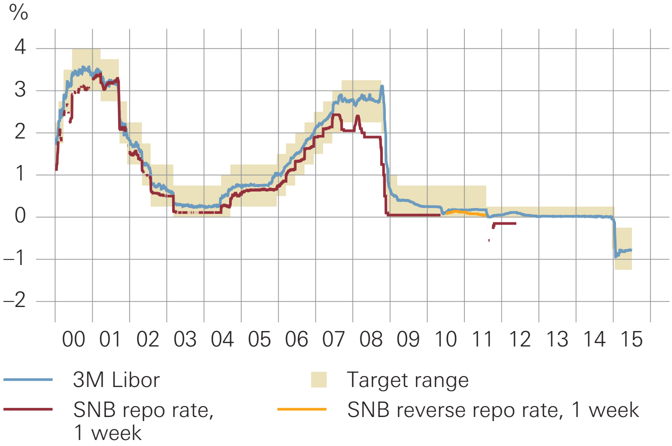
In a foreign exchange swap, the purchase (sale) of foreign currency at the current spot rate and the sale (purchase) of the foreign currency at a later date are simultaneously agreed.

Collateral eligible for SNB repos

The SNB requires that the banks and other financial market participants with which it conducts credit transactions hold sufficient capital. In so doing, the SNB protects itself against losses and ensures equal treatment of its counterparties. The 'Instruction sheet on collateral eligible for SNB repos' details the criteria which securities must meet to be eligible as collateral in repo transactions. Since the SNB also admits banks headquartered 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, while retail distribution is handled by commercial banks, Swiss Post and cash processing operators.

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, in Berne.

The SNB also determines banknote denomination and design. Particular attention is paid to 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 up-to-date and effective protection against counterfeiting. 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 2014, the average value of Swiss banknotes in circulation amounted to CHF 62.7 billion. This corresponds to around 10% of nominal GDP. The demand for banknotes has increased in the last few years, for reasons such as 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 SIC, the 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 account balances of sight deposit accounts held at the SNB changed accordingly.

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).

Link to SECOM and CLS

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.

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

The SNB's assets fulfil 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 bonds and equities, which are mainly denominated in euros and US dollars. The large-scale purchases of foreign currency that have been needed to counter the upward pressure on the Swiss franc since 2009 have led to a sharp rise in foreign currency investments.

Function of the 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. The level of the currency reserves is largely dictated by what is needed for the implementation of monetary policy.

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).

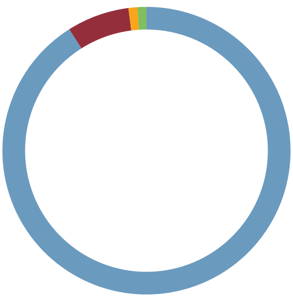
Investment policy

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 are held in secure and liquid US and European government securities. The average duration of these investments is several years. The SNB invests part of its foreign currency reserves in other currencies and higher-yield securities, including, for the past few years, corporate bonds and shares of foreign corporations. A broad diversification of currencies, issuers and instruments allows the SNB to achieve higher returns in the long term with a balanced risk profile. However, for reasons of overriding importance, it may be necessary to deliberately assume certain risks and to bear any associated losses. Thus, the SNB does not hedge its currency risk against a Swiss franc appreciation, as this would have undesirable monetary policy consequences. Given the increased financial risks resulting from the expansion of the balance sheet, the SNB aims to strengthen its capital position over the long term.

BREAKDOWN OF SNB ASSETS

In percent



Foreign currency investments **91**
Gold reserves **7**
Swiss franc securities **1**
Monetary institutions **1**

Total: CHF 561 billion
At year-end 2014

Source: SNB

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.

Statutory mandate

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 StabFund. In addition, there were contingent liabilities initially amounting to USD 8.9 billion. By August 2013, through interest payments, redemptions of StabFund investments and sales of assets, the SNB loan was paid off, and the SNB's total risk exposure was completely eliminated. In November 2013, UBS repurchased the StabFund from the SNB for the contractually agreed amount of USD 3.7 billion.

To create an environment that promotes stability, the SNB works at national level with the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Department of Finance (FDF). The SNB addresses the issue from a systemic perspective, and its focus is therefore on the 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 Basel III, a revised version of the Basel International Capital Framework, which 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, risk diversification and emergency planning. This reduces the risk of having to rescue a bank which is too big and too important to an economy for it to be allowed to go bankrupt (the 'too big to fail' issue).

Basel III also makes provision for macroprudential measures, including the countercyclical capital buffer. If it is activated, banks are obliged to temporarily increase their capital beyond the levels imposed by existing capital requirements, depending on the magnitude of the imbalances on the credit market. The countercyclical capital buffer thus aims to strengthen the resilience of the banking sector against the risk of excessive credit growth, and to counter excessive credit growth. Against a background of growing imbalances on the mortgage and real estate markets, in February 2013, the Federal Council, at the proposal of the SNB, activated the countercyclical capital buffer targeted at mortgage loans financing residential real estate in Switzerland, and increased it in January 2014.

Oversight of financial market infrastructures

In overseeing financial market infrastructures, the SNB focuses on payment systems, central counterparties, central securities depositories and securities settlement systems which might pose a risk to the financial sector. Risks can arise, for example, when operational, technical or financial problems in a financial market infrastructure spill over to other financial market infrastructures or financial intermediaries. This can result in serious disruption on the financial markets. Operators of such infrastructures must fulfil minimum requirements, which are defined in the implementing provisions (the National Bank Ordinance) to the NBA. When overseeing infrastructure operators with a banking licence, the SNB cooperates with FINMA. In the case of financial market infrastructures domiciled abroad, it collaborates 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 may have to furnish the market with large amounts of liquidity.

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 and financial system and help overcome crises. As a globally integrated economy, Switzerland derives particular benefit from a stable international monetary and financial system.

Within the framework of international monetary cooperation, the SNB participates in the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). Participation in the IMF, FSB and OECD is in collaboration with the Confederation.

IMF

The IMF works to promote the stability of the international monetary and financial system as well as macroeconomic and financial stability in its member countries. It monitors and regularly reviews economic developments in all of its member countries. The IMF grants loans to countries faced with balance of payment difficulties, relying on the funds of its members to do so. The European sovereign debt crisis led to a considerable rise in demand for IMF loans, and thus also IMF funding requirements.

BIS

The BIS in Basel serves as the central bank's bank and has provided a forum for international monetary and financial cooperation among central banks for almost 90 years. The SNB participates in various committees of the BIS, including the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, the Committee on the Global Financial System, and the Markets Committee.

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. Switzerland has been a member of the IMF since 1992, and is part of a voting group (constituency) whose other members are Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan. Switzerland is currently the constituency's executive director, and thereby holds one of the 24 chairs on the Executive Board, the IMF's most important operational body. In future, Switzerland will share this chair with Poland. The Swiss position on the Executive Board is held alternately by a representative of 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.

FSB

The FSB brings together national authorities, international organisations and standard-setting bodies responsible for financial stability. It has been mandated by the G20, a group of leading advanced and emerging economies, to promote financial stability, and maintains a secretariat at the BIS. Switzerland is represented in the Plenary Assembly, the Steering Committee and in other FSB committees and working groups.

OECD

Through its committees, the OECD works to promote the development of relations among its 34 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.

Working with central banks

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.

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 and discusses 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 – the 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 of its activities 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 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 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 (art. 30) contains a special provision governing the determination of profits, 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 risks incurred as a result of the expansion of the balance sheet. The remaining earnings are distributable profit.

The NBA (art. 31) 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. Given the considerable fluctuations in the SNB's earnings, the NBA stipulates that profit distribution be maintained at a steady level. The level of the annual profit distribution to the Confederation and the cantons is laid down in an agreement between the Federal Department of Finance and the SNB, which aims to smooth the flow of payments over many years. To this end, the SNB carries a distribution reserve on its balance sheet. In accordance with the agreement currently in force, the Confederation and the cantons are to receive an annual total of CHF 1 billion, provided the distribution reserve does not become negative as a result.

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, Risk, Compensation and Nomination Committees.

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 the business operations 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 the end of 2014, the staff at the SNB totalled 868 (including 19 trainees), or 776 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

as at 1 July 2015

GENERAL MEETING OF SHAREHOLDERS	**AUDIT BOARD**
BANK COUNCIL	**INTERNAL AUDIT**

GOVERNING BOARD

ENLARGED GOVERNING BOARD

BOARD OF DEPUTIES

DEPARTMENT I

Secretariat General	Secretariat Supervisory and Management Bodies
	Communications
	Documentation
	Research Coordination and Economic Education
Economic Affairs	Monetary Policy Analysis
	Inflation Forecasting
	Economic Analysis
International Monetary Cooperation	International Monetary Relations
	Central Bank Cooperation
	International Trade and Capital Flows
Statistics	Balance of Payments and Swiss Financial Accounts
	Banking Statistics
	Publications and Data Banks
Legal Services	
Compliance	
Human Resources and Pension Benefits	Human Resources and Pension Benefits
	Pension Fund
Premises and Technical Services	

DEPARTMENT II

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

DEPARTMENT III

Money Market and Foreign Exchange	Money Market
	Foreign Exchange and Gold
Asset Management	Global Rates
	Global Corporates
Banking Operations	Payment Operations
	Back Office
	Customer and Data Management
Information Technology	Banking Applications
	Business Support Processes
	Economic Information Systems
	Infrastructure
Financial Market Analysis	
Singapore	

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 financial market infrastructures (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.

Statistical publications

Annual publications include *Banks in Switzerland*, the *Swiss Financial Accounts*, the *Swiss Balance of Payments and International Investment Position* and *Direct Investment*, all of which are available in German, French and English. The *Historical Time Series* publication series examines various monetary policy themes from a long-term perspective and provides the associated data sets. The SNB also provides an extensive range of data on its website, as well as further information concerning SNB statistics.

SNB Economic Studies and *SNB Working Papers* present articles on economic issues and research results at irregular intervals. They appear in one language only, usually English. The *SNB Research Update* is published twice a year and provides an overview of its current research activities, as well as information about its economic activities. The *SNB Research Update* is available only in English.

SNB Economic Studies
SNB Working Papers
SNB Research Update

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

Speeches

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 1907–2007

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.

The Swiss National Bank in Berne – an illustrated chronicle

iconomix is the SNB's web-based educational programme. It offers a range of teaching resources that can be either downloaded or ordered. Although it is aimed at teachers of economics and humanities at upper secondary schools, it is open to anyone interested in finding out more about the subject. *iconomix* is available in full in German and French, and partially in Italian and English, at www.iconomix.ch.ch.

iconomix

The SNB's environmental report 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. It is published in German and French.

Environmental report

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, Italian 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.

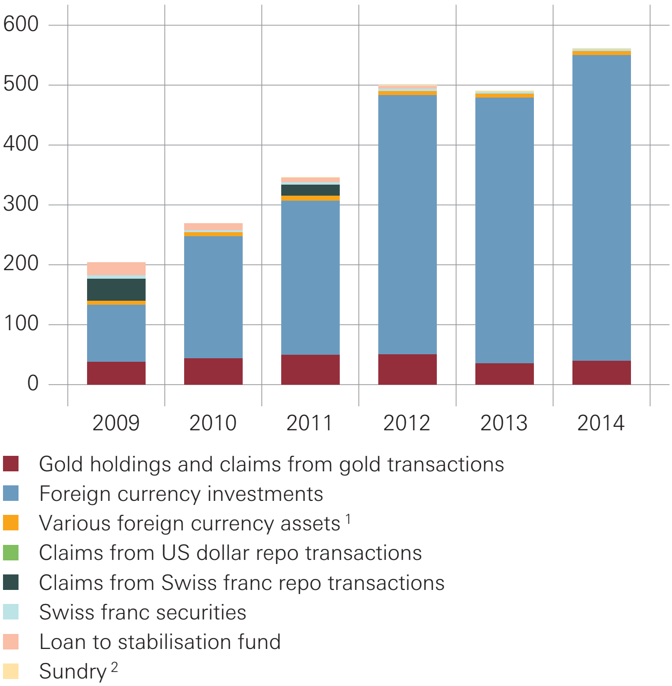
Obtainable from

Publications and other resources can be obtained through the SNB's library. They are also 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 (AGGREGATED)

BALANCE SHEET ASSETS AT YEAR-END

In CHF billions

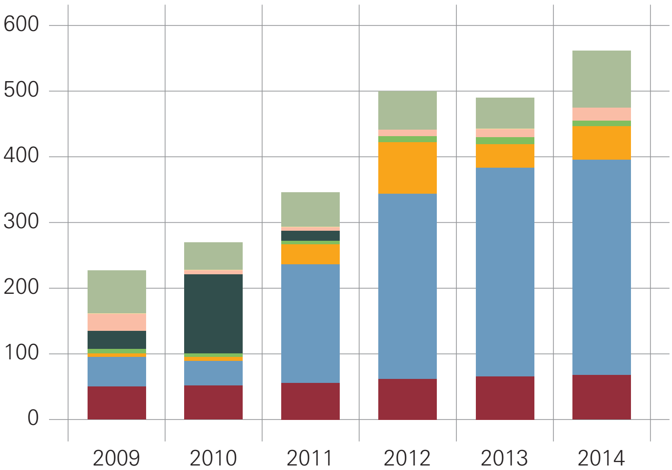


Source: SNB

1 Reserve position in the IMF, international payment instruments, monetary assistance loans.
2 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 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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