

Other central bank functions

1 Asset management

1.1 Fundamentals

The National Bank's assets essentially consist of gold and foreign currency reserves as well as domestic financial assets (domestic securities and money market assets). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined by the established monetary order and the requirements of monetary policy.

Part of the National Bank's assets serve directly for implementing monetary policy. We acquire assets in order to supply the economy with base money. These assets represent the real countervalue of the monetary base, thus helping to create confidence in the value of our currency. We employ mainly foreign-currency swaps and domestic assets for controlling the monetary base. Foreign-currency swaps constitute dollar reserves which are hedged in the forward market.

The unhedged foreign exchange reserves represent an instrument for intervening in the market in the event of a Swiss franc weakness. They are held mainly in dollar assets since the dollar serves as a central reserve and intervention currency. We can sell unhedged foreign exchange reserves at any time against Swiss francs if we need to support the external value of our currency. Unlike unhedged foreign exchange reserves, our gold holdings cannot be used for interventions in the foreign exchange market. The Swiss franc is linked to gold by law. This means that we can only buy and sell gold at the official price, which falls considerably short of the market price. Nevertheless, both gold holdings and unhedged foreign exchange reserves play a decisive role as a national emergency provision. They help to ensure that Switzerland remains solvent vis-à-vis foreign countries and able to pay for essential imports even in emergencies.

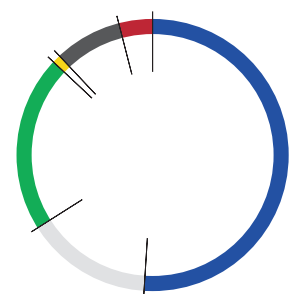
Legal provisions severely restrict our leeway for managing our gold and foreign exchange reserves. An active administration of our gold holdings is ruled out. In the management of our foreign exchange reserves we are also considerably inhibited by the National Bank Law. It specifies the type of assets we may acquire as well as the instruments we may employ for their management. It is, however, our endeavour to manage our foreign exchange reserves as profitably as possible within the limits set by legal provisions and our monetary policy mandate. We are permitted by law to effect investments abroad only in money market assets, and such activity is restricted to a specified circle of borrowers. For monetary policy reasons, moreover, we hold most of our foreign exchange reserves in dollars and do not selectively hedge the exchange rate risk. Experience shows that any exchange rate losses on unhedged foreign exchange reserves will be made good in the long run by higher interest earnings on the respective foreign investments.

Nature and purpose of the National Bank's assets

The role of domestic assets and hedged foreign exchange reserves

The role of unhedged foreign exchange reserves and gold holdings

Little leeway for managing our gold and foreign exchange reserves



Structure of National Bank assets in percent

Unhedged foreign exch. reserves	51
Foreign exchange swaps	15
Gold	21
Other domestic assets	1
Domestic financial assets	8
Other foreign currency assets	4

Total: Sfr 57.8 billion.
Balance sheet values, ann. average

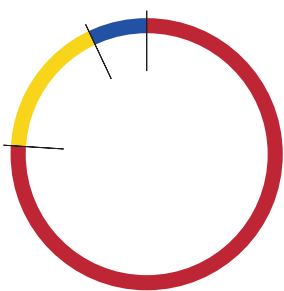
1.2 Foreign exchange investments

Investment policy and risk control

Our foreign exchange reserves are held in secure and liquid form. This enables us, in case of need, to sell these on the market at short notice and without incurring heavy losses. To this end, we are permitted by the National Bank Law to acquire easily marketable debt certificates of foreign states, international organisations and foreign banks and to hold time deposits with foreign banks. The residual maturity of any investment may not exceed twelve months. We deal with first-class banks and take care to avoid risk concentration. Our internal credit limits are based on assessments of creditworthiness of reputable rating agencies. Within these narrow terms of reference, we control the interest rate risk in each individual currency. We keep the mean residual maturities of individual currency portfolios close to the residual maturities of reference portfolios. The yardstick for the success of our asset management are the yields achieved on the reference portfolios and the investment yield attained by an external portfolio manager with a small part of our dollar investments.

Investment activity and results

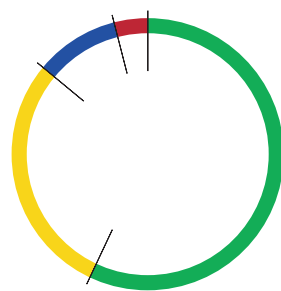
Our foreign exchange reserves are held in the three key currencies dollars, D-marks and yen. Compared to the previous year, the D-mark share was increased slightly to the detriment of dollar investments, which are still predominant. Approximately 80% of all investments were again accounted for by securities with state guarantee, with approximately 63% being invested in US government paper. The average residual maturity amounted to 4.5 months for dollar and D-mark portfolios, and 3 months for yen portfolios. The yields achieved reflect the lower interest rate level in these three money markets compared to the previous year; the yields amounted to 5.4%, 3.5% and 0.5% respectively and were thus across the board lower than a year earlier. Due to the short residual maturities of the investments, the capital gains failed to offset the decline in interest earnings. Leaving the exchange rate gain on all three currencies out of account, the overall yield on foreign exchange investments stood at 5%.



Foreign exchange reserves by debtor category in percent

Government securities 76
Monetary institutions 17
Remaining money market 7

Total: Sfr 44.6 billion.
Annual average



Foreign exchange reserves by currency in percent

Dollar unhedged 57
Dollar hedged 29
D-mark 10
Yen 4

Total: Sfr 44.6 billion.
Annual average

1.3 Domestic securities

Since the early eighties the Swiss National Bank has been creating part of its base money through annual bond purchases in the domestic capital market to the net amount of approximately Sfr 100 million. We manage our bond holdings in compliance with statutory provisions and subject to the restriction that asset management may neither disrupt monetary policy nor profit from it. We therefore pursue an investment policy bound by rules. We spread purchases evenly over the year. We are only authorised to buy public sector bonds, mortgage bonds and marketable bonds of domestic banks, which reduces the credit risk. All legally admitted debtor categories are considered more or less in relation to their market capitalisation.

At the end of 1996 the market value of the portfolio amounted to Sfr 4,821.5 million, compared to Sfr 4,686.7 million a year earlier. The medium duration increased from 4 to 4.3 years. Interest earnings on the portfolio totalled Sfr 242.9 million. The price loss due to the rise in interest rates in the first half of the year was more than offset when interest rates fell again in the second half. On balance, a price gain of Sfr 17.4 million resulted; the yield amounted to 5.75%.

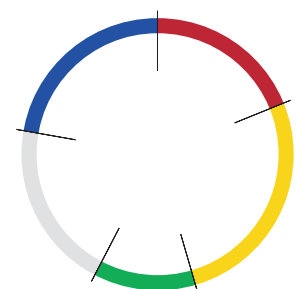
1.4 Review of investment policy and profit distribution

At the beginning of June 1996, the National Bank and the Federal Department of Finance commissioned a joint working group to review the investment policy of the National Bank and to seek possibilities for a more profitable management of its foreign exchange reserves. The working group was also requested to draw up proposals for reducing the fluctuations in the distribution of National Bank profits to the Confederation and the cantons more effectively.

Fundamentals of securities management

Investment activity and results

Joint working group of the Department of Finance and the National Bank



Domestic securities by debtor category in percent

Confederation	19
Cantons	27
Communes	12
Mortgage bonds	20
Banks	22

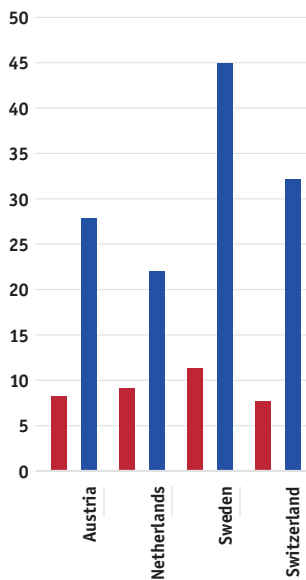
Total: Sfr 4.6 billion.
Annual average

Assessment of the level of the National Bank's foreign exchange reserves

In the first part of its report, which was published on 20 December after having been approved by the Federal Council and the Governing Board, the working group noted that compared to other small European countries the National Bank held adequate unhedged foreign exchange reserves. It also emphasised that the foreign exchange reserves of a central bank primarily performed a monetary policy function. They cannot, therefore, be managed solely based on earnings and risk considerations. The National Bank is, however, committed to achieving maximum earnings while duly taking its liquidity and security requirements into account.

Proposal for a partial revision of the National Bank Law and proposal for future profit distribution

To this end, the working group proposed a partial revision of the National Bank Law (NBL). Accordingly, the maximum maturity of currently twelve months for easily marketable foreign assets is to be abolished in order to enable the National Bank to increase the duration of its foreign currency investments and in this way to achieve higher earnings on its foreign exchange reserves. In addition, the use of derivatives for controlling the market risks of foreign exchange reserves and a more active management of gold holdings through 'gold lending' could, if they were legally authorised, further help to improve earnings. In order to ensure that no violation of the obligation to maintain a gold cover of at least 40% for notes in circulation occurs through gold lending operations, the statutory minimum gold cover is to be reduced to 25%. Overall, the partial revision of the law is expected to produce a surplus income of Sfr 400 million a year on average. The working group also submitted a proposal for reducing the fluctuations in the annual profit distribution more effectively. The distributable amount – calculated on the basis of an earnings forecast – is to be stabilised for a period of five years. Finally, the National Bank is to be exempted from federal income tax. There is little sense in making the National Bank subject to taxation since this merely leads to a shift in the proportion of profits allocated to the Confederation and the cantons.



Foreign exchange reserves in percent

Gross domestic product

Imports

Average foreign exchange reserves 1992–1994 (Austria, Netherlands and Switzerland) and 1992/1993 (Sweden) respectively. Switzerland: unhedged foreign exchange reserves.
Source: IMF, SNB

2 Payment transactions

2.1 Basis

In Switzerland, payment transactions are handled primarily by the National Bank, the commercial banks and the Post Office. The banks' payment services are performed by the companies of the Telekurs Group. The National Bank supplies the economy (by way of the banks) with banknotes and coins. It also acts as a settlements centre for cashless payments between the banks and between the Post Office and the banks.

Since 1987, the Swiss National Bank – together with Telekurs Payserv Ltd – has operated the electronic SIC (Swiss Interbank Clearing) system. SIC is a Real-Time Gross Settlement (RTGS) system in which each payment transaction is performed individually via the participants' sight deposit accounts at the National Bank. The banks use SIC for handling their large-value payment transactions as well as part of their bulk payments. Since March 1995, SIC has been linked to the SECOM settlements system of SEGA (the Swiss Securities Clearing Corporation). This ensures that payment and delivery occur simultaneously ('delivery against payment'), thereby avoiding settlement risks.

The other services provided as part of the banks' payment transactions – data carrier exchange (DTA), direct debiting (LSV), cheque clearing (standardised cheques), Bancomat cash dispensers, Electronic Funds Transfer (EFT/POS) and the associated ec-Direct facility – are net settlement systems. The interbank claims which arise through the performance of these payments are settled at regular intervals – generally once a day – via the participants' sight deposit accounts at the National Bank. The payments system of the Swiss Post Office is used mainly for bulk payments. The National Bank's post office accounts provide a link between the payment systems of the banks and that of the Post Office.

Overview

Developments relating to cashless payments

Participation in other payments services

2.2 Provision of cash

Cash in circulation

In 1996, the average banknote circulation was Sfr 28.2 billion, i.e. 2.4% more than in 1995. At Sfr 2.1 billion, coins in circulation were only just above the previous year's figure.

Manufacture and disposal of banknotes

The National Bank added 268 million freshly printed banknotes with a face value totalling Sfr 3.4 billion to its stock. 143.6 million damaged or recalled notes with a face value of Sfr 11.3 billion were destroyed.

Cash turnover

In 1996 the National Bank's branch offices registered a 6.6% increase in cash turnover in value terms to Sfr 144.2 billion. The branch offices received approximately 420 million notes (7.9% more than in 1995) and checked them for authenticity, quality and quantity.

New 20-franc note

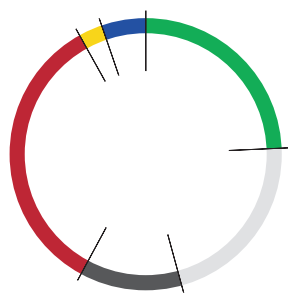
On 1 October 1996 the National Bank issued the new 20-franc note, the second in its new series. The note, which depicts the composer Arthur Honegger, is of similar design to the 50-franc note depicting Sophie Taeuber-Arp. The new note's underlying colour is red, thus clearly distinguishing it from the 100-franc note. The new banknote series combines modern design with state-of-the-art printing technology. The security features allow members of the public to easily verify that the notes are genuine.

Completion of the new bank note series by autumn 1998

The new 10-franc note will appear in spring 1997, with the remaining notes being introduced at six-monthly intervals up to autumn 1998. The banknotes of the old series, which were issued between 1976 and 1979, will remain legal tender until further notice. The notes from previous series, which were recalled in 1980, are redeemable by the National Bank up to 30 April 2000.

Numismatics

In 1996 the National Bank put 23,400 sets of coins into circulation. Acting on behalf and for the account of the Federal Government, it also released 457,700 commemorative coins.



Bank notes in circulation
Denom. units (number in millions)

10s	60
20s	53
50s	30
100s	84
500s	7
1000s	13

Annual average

2.3 SIC payment transactions

At the end of 1996 there were 218 participants in SIC (end-1995: 214). During the year under review, an average of about 427,000 payments per day totalling approximately Sfr 150 billion were handled. Every two-and-a-half days, therefore, a volume roughly equivalent to Switzerland's annual gross national product is handled by the system.

Growth in SIC payments

Development of payment flows¹

	1992	1993	1994	1995	1996
Transactions per day (thousands)					
Average SIC	253	263	349	382	427
Average SECOM	–	–	–	13	20
Maximum SIC	521	580	925	1 154	1 156
Maximum SECOM	–	–	–	24	40
Volume per day (Sfr billions)					
Average SIC	131	133	131	128	150
Average SECOM	–	–	–	3	5
Maximum SIC	232	217	270	257	290
Maximum SECOM	–	–	–	7	10
Frequency of turnover²					
Average	67	63	61	57	58
Maximum	125	113	121	112	90

1 As from 27 March 1995, SECOM payments are contained in the SIC payments flow.

2 Average daily turnover per franc

SIC does not impose any restrictions regarding the size of the amounts handled. Alongside payments of Sfr 100 million or more, even very small sums are handled. The structure of the payments flow varies greatly in terms of volumes and amounts: whereas small sums (of up to Sfr 5,000) account for more than 80% of payments, they account for only 0.2% of the total volume. Conversely, large payments (Sfr 1 million and over) account for over 95% of the total volume but for less than 5% of the number of payments.

Structure of payments

Daily payments flow

	1992	1993	1994	1995	1996
Number¹					
1–4 999	80.3	81.2	84.9	83.0	82.7
5 000–999 999	15.9	15.1	12.3	14.5	14.8
1 000 000 and over	3.9	3.7	2.8	2.5	2.5
Volume¹					
1–4 999	0.2	0.2	0.2	0.2	0.2
5 000–999 999	2.2	2.2	2.2	3.2	3.3
1 000 000 and over	97.6	97.6	97.6	96.5	96.5

1 Breakdown by category of payment in percent of corresponding total

3 Statistical tasks

Basis

The National Bank collects from banks and industries the statistical data necessary for performing its tasks. This data is used for analyses concerning monetary policy and economic activity and for drawing up the balance of payments. The information on the banks' balance sheets serves mainly for calculating the monetary aggregates. The data supplied by enterprises in the industrial and services sectors on their foreign activities, notably direct investment, is reflected in the balance of payments. The National Bank is also responsible for compiling investment fund statistics; in addition, it collects information on the money and capital markets. These statistics are drawn up by agreement with the data-reporting institutions and conform closely to international standards. It is our aim to rationalise the transmission of data from banks and industries as far as possible. In 1996, initial steps were therefore taken to introduce a fully electronic data transmission system between the banks and the Swiss National Bank.

Improvement of various statistics

In the course of the revision of the banks' capital adequacy requirements and accounting rules all banking statistics, databanks and publications were made subject to review and brought up-to-date in 1996. In order to be able to take account of the current situation in calculating our monetary aggregates, we conducted a preliminary survey with a representative number of banks. We also supplemented the data base with regard to innovations in the financial markets. The structure of our balance of payments was adjusted to the requirements of the IMF. In conjunction with the investment fund association, we devised a new concept for extending the data base concerning investment funds.

4 Services on behalf of the Confederation

Basis

The National Bank acts as banker to the Confederation. The National Bank Law lays down the services to be performed, prohibits deficit financing by means of central bank credits and stipulates that the services must be rendered free of charge. On this basis, we perform tasks on behalf of the Confederation in the payments field and in coinage, in borrowing on the money and capital markets and in the investment of funds.

Agent in the money market

The Confederation holds its liquid funds in the form of sight deposits and short-term time deposits at the National Bank. We pay interest on the Confederation's sight deposits up to an amount of Sfr 500 million at the call money rate, on time deposits at market rates. In the event of liquidity bottlenecks, we assist the Confederation in taking up money market credits from banks; if necessary, the Confederation must avail itself of a Lombard credit from the National Bank on the same terms as the banks.

Federal bonds and money market debt register claims

In 1996 we arranged 52 issues of money market debt register claims (MMDRC) and 10 bond issues on behalf of the Confederation. MMDRCs to the amount of Sfr 103.1 billion were subscribed and Sfr 49.9 billion were allocated. Bonds were subscribed for a total amount of Sfr 10.6 billion, of which Sfr 4.5 billion were allocated.

Federal bonds and money market debt register claims

	1992	1993	1994	1995	1996
Number of issues¹					
Federal bonds	10	16	16	7	10
MMDRC	24	24	52	52	52
Total subscribed in billions of francs					
Federal bonds	12.6	14.2	9.9	8.2	10.6
MMDRC	23.8	59.0	71.8	94.7	103.1
Total allocated in billions of francs					
Federal bonds ²	6.2	8.6	6.8	3.5	4.5
MMDRC	15.6	34.5	46.7	47.1	49.9
Outstanding at year-end in billions of francs					
Federal bonds	17.2	24.1	28.6	29.8	33.8
MMDRC	7.2	11.3	12.7	14.1	14.7

1 Based on date of payment

2 Excluding the National Bank's own tranche

Administration and processing services

The National Bank accepts payments on behalf of the Confederation and carries out remittances up to the amount of the Confederation's sight balances to third parties both in Switzerland and abroad. Federal agencies cover their cash requirements through withdrawals from the National Bank. The surplus liquid funds of the Confederation – notably those of the Post Office and the Swiss federal railways – flow back to us via the banks. We also keep the federal debt register and administer security holdings and objects of value on behalf of the Confederation and associated institutions.

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Banking Commission

Basic features

In 1996 regular meetings again took place between the Federal Banking Commission (FBC) and the Governing Board of the Swiss National Bank. At the same time, we cooperated closely with the Secretariat of the FBC on various issues, notably in reviewing amendments to the laws in the financial field.

Stock Exchange Act: second set of implementing norms

After a consultation procedure on a first set of implementing provisions to the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act; SESTA) had been carried out in autumn 1995, the FBC opened a consultation procedure on a second set of norms at the end of March 1996. These included drafts of sections 3 and 4 of the FBC's stock exchange ordinance (on the disclosure of shareholdings and the submission of public offers) and the draft of an ordinance of the takeover committee on public offers (takeover committee), and finally the draft of the committee's regulations on public offers.

Comments of the National Bank

In its comments, the National Bank first referred to the fact that in their provisions on public takeover the Swiss legislators had followed the guidelines proposed by the EU. This proposal has, in the meantime, been modified considerably; in particular, the obligation to make a public offer when a shareholding exceeds a specific threshold has been deleted. Art. 32 of the Swiss Stock Exchange Act provides for such an obligation to make a public offer, subject to an opting-out clause. In view of this discrepancy vis-à-vis the regulations of the EU countries which is beginning to manifest itself we suggested that the enforcement of chapter 5 of the SESTA should be reconsidered in light of the international competitiveness of Switzerland as a securities trading centre. Moreover, we submitted a series of proposals for specifying the implementing norms of the FBC and the takeover committee.

5.2 Cooperation with the Federal Department of Finance and the Commission for Economic Issues

Working group 'Cantonal banks'

The National Bank participated in a working group under the chairmanship of the Federal Department of Finance which dealt with the status of cantonal banks. The working group's recommendations aim at providing the cantons with more leeway in their relations with the cantonal banks as well as in mergers, cooperation agreements and transformations of cantonal banks.

In its report of December 1996 the working group proposed an amendment to the Banking Law. Accordingly, a bank should be permitted to use the term 'cantonal bank' in its name if it was established pursuant to cantonal legal decree and if the canton holds a qualified investment. State guarantee will no longer serve as a distinguishing feature of cantonal banks. Cantonal banks with-

out state guarantee are to be made subject to unlimited supervision by the FBC; no special provisions of banking law are to apply to them.

In February 1996, the head of the Federal Department of Economic Affairs, at the suggestion of the National Bank, commissioned a working group of the Commission for Economic Issues to study the effects of the European Economic and Monetary Union (EMU) on the Swiss economy and to show up the scope of action of the National Bank and other competent authorities. The National Bank was represented in the working group together with the federal authorities and representatives from universities, the business community, and employer and employee associations. Since the effects on the Swiss economy will largely depend on the manner and time of implementation of EMU, the working group described four possible future scenarios: In the first scenario, the third stage of EMU will be realised on schedule at the beginning of 1999 with a limited number of EU countries which meet the convergence criteria laid down in the Maastricht Treaty. In the second scenario, the convergence criteria are softened to permit as many countries as possible to join EMU. In a third scenario, the beginning of the third stage is postponed although public belief in the implementation of EMU remains unshaken. A fourth scenario also provides for a postponement but implementation seems very far off.

The transition to the third stage involves the risk of a real appreciation of the Swiss franc which would impair the competitiveness of the domestic economy. In the case of the first and the third scenario, the appreciation is likely to be both moderate and temporary. Massive exchange rate turbulences cannot, however, be ruled out in the second scenario. In such an event notably the National Bank would be implicated and would have to react by relaxing monetary policy. If forced to a considerable relaxation, the National Bank would, however, run the risk of fuelling inflation in the medium term.

The working group rejected the idea of permanently pegging the Swiss franc to the European single currency. This would deprive the National Bank of its autonomy in conducting monetary policy, with short-term Swiss interest rates rising to the European level. The working group, moreover, is set against any restrictions on capital imports and other restrictive measures. On the other hand, it clearly indicated how economic policy could contribute in other areas to strengthening Switzerland's economic and industrial position.

Working group 'Economic and Monetary Union'

Implications for the Swiss economy

Proposals of the working group

5.3 Switzerland's financial relations in the Second World War

A renewed topical issue

In the course of 1996 the debate on the role played by the Swiss financial centre during the Second World War gained renewed interest both within and outside Switzerland. Various aspects have been the subject of discussion: the extent and fate of assets belonging to victims of the Nazi regime and deposited in Switzerland before and during the Second World War, the gold transactions of the Swiss National Bank during the War and the issue of Nazi assets brought into Switzerland. The Federal Decree on assets held in Switzerland of foreign nationals or stateless persons subject to racial, religious or political persecution of 20 December 1962 laid down how dormant accounts were to be dealt with. Doubts have currently arisen as to the effectiveness of this Federal Decree. In the same context, the agreements concluded between Switzerland and some countries formerly belonging to the Eastern Bloc for indemnifying dispossessed Swiss nationals have also been criticised.

Independent committee

On 2 May 1996 a committee was set up, based on a Memorandum of Understanding between the Swiss Bankers' Association and various Jewish organisations, with the task of investigating the issue of assets held by Swiss banks with no customer contact. Chairman of the committee is the former Chairman of the US Federal Reserve Board, Paul Volcker.

Legal basis for historical fact-finding

The opinion soon gained ground that only a thorough historical investigation would shed light on the exact circumstances of Switzerland's financial relations in the Second World War. On 13 December 1996, parliament created the necessary legal basis by passing a Federal Decree on the historical and legal inquiry into the fate of the assets deposited in Switzerland in the wake of the Nazi regime. On 19 December 1996 the Federal Council appointed an investigative committee consisting of nine members, most of them historians and including four foreign experts. The committee under the chairmanship of Professor Jean-François Bergier has the task of investigating the fate of the assets deposited in Switzerland under the Nazi regime.

Attitude of the National Bank

The National Bank welcomes the decision of the federal parliament and the appointment of the Volcker committee. These steps are designed to facilitate Switzerland's search for the truth in a difficult period of its history. After the War the National Bank's gold transactions with the German Reichsbank formed the object of an agreement under international law with the Allies. Following the declassification of documents in the eighties, a number of critical treatises on the subject were published by various historians. Switzerland's foremost concern today is to assess these past events from a distance of half a century and to draw the necessary conclusions.

6 International cooperation

On an international level, the National Bank cooperates with the International Monetary Fund (IMF), the Group of Ten (G-10) – which represents the ten leading industrial countries and Switzerland – and the Bank for International Settlements (BIS). The National Bank also participates in international cooperation by providing technical assistance and specialist training.

6.1 Cooperation in the International Monetary Fund

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. The National Bank finances Switzerland's contribution in the form of a reserve position in the IMF, which consists of an interest-bearing claim. The Fund pays for its activities with the member countries' reserve positions. At the end of 1996, Switzerland's reserve position amounted to 1,064.9 million Special Drawing Rights (SDRs), compared to 981.2 million SDRs at the end of 1995. (At the end of 1996 1 SDR was equivalent to Sfr 1.94.) The maximum amount it can reach corresponds to its quota, i.e. Switzerland's capital share in the IMF to the amount of 2,470.4 million SDRs. As part of the General Arrangements to Borrow (GAB), the National Bank extended an additional credit line of 1,020 million SDRs to the IMF for special cases. The IMF may only resort to the GAB if disruptions in the international monetary system have led to a shortage of ordinary funds. The GAB were not utilised in 1996. The National Bank, moreover, finances the Swiss contribution to the loan account of the Enhanced Structural Adjustment Facility II at the IMF (ESAF II). The loan commitment amounts to 151.7 million SDRs. The timely repayment of the ESAF loans including interest to the National Bank is guaranteed by the Federal Government. The ESAF serves to finance long-term loans at reduced interest rates to poor developing countries. The interest-rate subsidies are financed by the Confederation. The loan commitment to the amount of 151.7 million SDRs was not drawn on in 1996.

**Membership in the
International Monetary Fund**

6.2 Cooperation in the Group of Ten

The National Bank participates in the meetings of the finance ministers and central bank governors of the G-10 as well as in various working groups of the G-10.

New arrangements
to borrow (NAB)

At the beginning of 1997 the Executive Board of the IMF approved the New Arrangements to Borrow (NAB). The NAB are parallel agreements to the General Arrangements to Borrow (GAB). They are intended to enable the IMF, in the event of a disruption of the international financial system, to borrow up to 34 billion SDRs should its ordinary financial resources prove to be inadequate. The members of the GAB – the G-10 – and 14 new members are to participate in the NAB. The NAB enter into force as soon as the agreement has been signed by members providing 85% of the total amount. Should the IMF be compelled to borrow funds, it will first have to submit an application for activating the NAB. The GAB will only become available if it is impossible to activate the NAB or if G-10 countries take up credits. No cumulative borrowing through recourse to the GAB and the NAB is admitted. The G-10 countries will provide approximately 80% of the financing of the NAB. As in the case of the GAB, the National Bank is to be a participating institution and will finance the Swiss contribution to the amount of 1,557 million SDRs. The Confederation does not guarantee the loans extended by the National Bank to the IMF within the framework of the NAB.

Working party on
the resolution of sovereign
liquidity crises

In reaction to the financial crisis in Mexico at the end of 1994, the G-10 countries set up a working party to discuss measures for overcoming liquidity crises of sovereign debtors. The working party published its final report in May 1996. It concluded that adherence to loan agreements was of the essence. If debt servicing is interrupted, suitably flexible solutions would have to be found. This would, for example, be facilitated if loan agreements provided for cooperation between creditors and debtors. Neither debtors nor creditors could expect to be protected against losses in the event of a liquidity crisis.

6.3 Cooperation with the BIS

Basle Committee on
Banking Supervision

The central bank governors of the G-10 meet once a month within the framework of the BIS. Moreover, the National Bank is represented in various committees of the BIS including the Basle Committee on Banking Supervision and the Committee on Payment and Settlement Systems.

Together with the Federal Banking Commission, the National Bank participated in the tasks of the Basle Committee. In 1996, the emphasis was on the improvement of capital adequacy standards for internationally active banks, notably on testing the banks' own models for determining the capital resources necessary for covering market risks and the mode of settlement of claims among several parties (multilateral netting). Furthermore, the Basle Committee strove to intensify the dialogue with banking supervisors in countries not belonging to the Group of Ten.

The Committee on Payment and Settlement Systems studied measures for handling the performance risk in foreign exchange trading transactions and published its report in March 1996. A risk in settling foreign exchange transactions may consist – for example, due to different time zones – in a party meeting its payment obligations but not receiving the foreign exchange purchased from its contracting partner.

Committee on Payment and Settlement Systems

Within the framework of the Committee on Payment and Settlement Systems various working groups dealt with the subject of electronic money (e-money). The studies aimed at identifying possible problem areas in connection with the electronic purse as well as with e-money transferred on worldwide data networks. The working groups analysed technical security aspects, regulatory issues, monetary implications and legal aspects of e-money. They came to the conclusion that e-money currently raises no urgent problems for the central banks but that a close eye was to be kept on further developments.

Working group on electronic money

6.4 Technical assistance and specialist training

The National Bank provides technical assistance to central banks that have either been newly established or are in a state of reorganisation. Our activities ensue partly in response to requests from the International Monetary Fund and partly within the context of the Confederation's development programmes. Specialists from our Bank visit other central banks and invite members of their staff to Switzerland for training purposes. In 1996, considerable support was given to the Bank of Tanzania (domestic financial markets, foreign exchange markets), the central bank of Madagascar (internal auditing) and the central bank of Kyrgyzstan (foreign exchange and money markets, cash transactions).

Counselling in various central bank activities

The activities of the Gerzensee Study Centre include courses in the field of monetary policy for qualified central bank employees from developing and transition countries. In 1996 it organised five central bank courses with over a hundred participants from all over the world.

Courses on monetary policy