

## **Instruction sheet 1**

(Appendix to the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments*)

**Department III**

Zurich, 25 August 2009

**This is an English translation of a German original. Only the German original text is authoritative.**

## **Instruction sheet on open market operations**

### **1. Introduction**

The purpose of Swiss National Bank (SNB) open market operations is to provide liquidity for the money market and steer short-term interest rates. The SNB is able to create liquidity and absorb it again. It carries out open market operations through repo transactions and by issuing its own debt certificates (SNB Bills). This instruction sheet describes the conditions and procedures for carrying out open market operations and provides more specific detail than is given in the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments*.

### **2. Eligible counterparties**

All domestic banks (Switzerland and the Principality of Liechtenstein) with a sight deposit account at the SNB are in principle admitted as counterparties for SNB monetary policy operations.

Other domestic participants in the financial market and banks operating abroad or domestic branches of foreign banks may be admitted as counterparties for monetary policy operations where this serves monetary policy interests and the participants or banks meet the requirements for opening a sight deposit account. Applications for opening a sight deposit account and admission to participation in open market operations should be submitted to Department III in writing.

SNB open market operations are generally concluded via the Eurex Zurich Ltd electronic trading platform and settled according to the delivery-versus-payment principle. For securities clearing, settlement takes place through the SECOM system operated by SIX SIS Ltd (SIS), and for Swiss franc clearing, it is carried out through the SIC system run by SIX Interbank Clearing Ltd (SIC). In addition to holding a sight deposit account with the SNB, the counterparty must therefore meet the cumulative requirements of all three SNB

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partners in order to conclude open market operations with the National Bank. SNB counterparties must have a direct connection to the SIC system.

The SNB can establish counterparty limits. It reserves the right to inform foreign central banks and domestic or foreign authorities responsible for the supervision of its counterparties of its business relationship with the counterparty and any outstanding liabilities.

### 3. SNB repo auctions

Repo auctions are conducted either by volume tender (fixed rate tender) or by variable rate tender. The maturity of repo transactions may vary from one day (overnight) to several months. Collateral eligible for SNB repos must always cover at least 100% of the liquidity obtained (cf. *Instruction sheet on collateral eligible for SNB repos*).

The SNB announces the auction conditions (contract, term, procedures, etc.) via the following electronic information services:

- Reuters SNBAUCT1, SNBAUCT2
- Bloomberg SNB <go>, Activity, Menu item 13

Repo auctions are generally held every working day, from 9.00 a.m. to 9.10 a.m. Offers received after the auction has closed or that do not comply with the SNB's terms, are excluded from the allotment process. Each participating bank can view its individual allotment on the trading platform (own trades) after conclusion of the auction.

At the end of the auction period, the offer is binding on the participant until allotment by the SNB. The SNB reserves the right to decide against holding an auction at any time during or after the auction period and up to the period immediately before allotment.

The auction and allotment procedures described in the following sections relate to liquidity creation operations. The provisions apply *mutatis mutandis* in the case of liquidity-absorbing operations.

#### 3.1 Auction procedure for volume tenders

The SNB defines the repo rate. With their addressed offers, participants submit the amount for which they are willing to obtain liquidity in Swiss francs. Individual participants may submit as many offers as they wish. Individual bids must amount to at least CHF 1 million (minimum cash amount) and, for technical reasons, may not exceed CHF 100 million (cash amount) (cf. *Technical rules and regulations, payment system applications*, chapter 2: Instructions for SIC).

If the total amount of all offers received exceeds the allotment volume defined by the SNB, the SNB will make a proportional reduction of the amount applied for in each case where the amount exceeds CHF 10 million for an individual participant. The full amount will be allotted in all other cases.

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## 3.2 Auction procedure for variable rate tenders

With their offers, individual participants submit the amount for which they are willing to obtain liquidity in Swiss francs and the interest rate p.a. which they are willing to pay. Individual participants may submit as many offers as they wish, and may also vary the interest rate from one offer to another. Offers without an interest rate are not admitted. The SNB may set a minimum and/or a maximum interest rate for offers. Individual offers must amount to at least CHF 1 million and, for technical reasons, may not exceed CHF 100 million (cf. *Technical rules and regulations, payment system applications*, chapter 2: Instructions for SIC).

Dutch allocation system: Swiss franc liquidity is consistently allotted at the lowest interest rate accepted by the SNB to the participants offering that or a higher interest rate. Offers that exceed the lowest interest rate accepted by the SNB are fully satisfied. If the total amount of offers at the lowest accepted interest rate exceeds the remaining amount to be allotted, the latter is allotted proportionally to the participants with the corresponding offers according to the ratio between the remaining amount to be allotted and the total amount of these offers. Offers that fall short of the lowest rate accepted by the SNB are not considered.

American allotment system: Swiss franc liquidity is allotted – at the interest rate stated in the individual offer – to the participants that have offered at least the lowest interest rate accepted by the SNB. Offers that exceed the lowest interest rate accepted by the SNB are fully satisfied. If the total amount of offers at the lowest accepted interest rate exceeds the remaining amount to be allotted, the latter is allotted proportionally to the participants with the corresponding offers according to the ratio between the remaining amount to be allotted and the total amount of these offers. Offers that fall short of the lowest rate accepted by the SNB are not considered.

## 4. Quotations on the repo interbank market

In order to influence price-setting in the money market, the SNB can place or accept offers (quotes) on the Eurex Zurich Ltd electronic trading platform (term overview).

Counterparties can accept SNB offers at the given conditions by means of the 'direct hit' function. They can reduce SNB offers to a minimum amount of CHF 1 million. However, the SNB can also accept offers from counterparties at any time.

## 5. Settlement

Settlement of individual repo transactions is triggered by SIS immediately after conclusion of the transaction (overnight funds) or shortly before 8 a.m. on the value date. As soon as the cash taker has sufficient collateral eligible for repo transactions with the SNB and the

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cash provider has sufficient liquidity, settlement takes place according to the delivery-versus-payment principle. The payment instructions to the SIC system triggered in the SECOM system by special-rate repo transactions bear a high priority (B5). The same procedure is followed at reverse settlement of the individual repo transactions on the maturity date, taking the repo rate into account.

## 6. Issue of SNB Bills

The SNB may issue its own interest-bearing debt certificates (SNB Bills) in order to absorb liquidity.

SNB Bills are issued publicly by auction or through private placement. Auctions are conducted either by volume tender (fixed rate tender) or by variable rate tender. The National Bank may repurchase SNB Bills during their term and sell them again. Interest on SNB Bills is payable on a discount basis. Further details on SNB Bills may be found in the document, *SNB Bills – Issue Conditions*, as well as in the notifications of the conditions for individual issues.

## 7. Default

If a counterparty defaults on a payment obligation under a repo transaction for any reason, default interest is payable to the SNB until the day when the payment is made. The rate of such interest is calculated at the level of the SARON (Swiss Average Rate Overnight) 12.00 noon fixing plus twice the special-rate surcharge, although no less than one percentage point (cf. *Instruction sheet on the liquidity-shortage financing facility*). Consequently, all counterparties must sign a supplement to the master agreements on repo transactions. This authorises the SNB to debit default interest from their sight deposits, subject to due notification. Moreover, if payment is overdue, a fulfilment request with high priority (B5) will be activated by SIS at the beginning of the following value day in the SIC system.

## 8. Emergency procedure

If the electronic trading platform should fail, the SNB will decide on the action to be taken in consultation with Eurex Zurich Ltd (postponement of auction, or auction by telephone). The SNB will inform counterparties via the information pages of the electronic information services listed in section 3 above.

When the auction is conducted by telephone, counterparties should use the main telephone line of the SNB's Money Market and Foreign Exchange unit (+41 44 631 87 00). After allotment, the repo contracts must be entered in the SECOM system at SIS, using a two-way order (matching). This order must be transmitted before clearing stop 2

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(4.00 p.m.). The SNB may conduct repo auctions by telephone at any time in order to test this emergency procedure. Counterparties are required to make the necessary arrangements for this.