

## **Instruction sheet 3**

(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 the liquidity-shortage financing facility (special-rate repo transactions)**

### **1. Introduction**

The Swiss National Bank (SNB) provides its counterparties with a liquidity-shortage financing facility to bridge unexpected, short-term liquidity bottlenecks as part of its standing facilities. This facility may be drawn via a special-rate repo transaction.

This instruction sheet outlines the procedure for granting a limit together with the conditions and operational details of how to use the facility 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 counterparties that meet the conditions for participation in the repo market in Swiss francs and the conditions set out in section 3 below are entitled to utilise the SNB's liquidity-shortage facility via special-rate repo transactions.

### **3. Conditions for using the liquidity-shortage financing facility**

#### **3.1 Granting a limit**

The first precondition for using the liquidity-shortage financing facility is the granting of a limit by the SNB. This limit defines the maximum amount of liquidity that can be drawn. The SNB usually sets a limit in response to a written request from the counterparty.

Limits are normally set for a year and can be withdrawn by the SNB at any time, providing it gives ten days' notice in writing. All applications from counterparties to raise, lower or cancel such limits must be submitted in writing.

## 3.2 Opening a Custody Cover Account "SNB"

As a second precondition for using the liquidity-shortage financing facility, the counterparty must open a safekeeping account known as a Custody Cover Account "SNB" with SIX SIS Ltd (SIS) (cf. *Instruction sheet on the Custody Cover Account "SNB"*).

The SNB has the right to inspect its counterparties' Custody Cover Account "SNB" at any time in order to access all significant information relating to the maintenance of sufficient collateral to cover the limit. Furthermore, it is permitted to publish this information in aggregated, anonymous form.

## 3.3 Providing cover with collateral eligible for SNB repos

The third precondition for drawing on the liquidity-shortage financing facility is that collateral eligible for SNB repos covering at least 110% of the limit must be held in the counterparty's Custody Cover Account "SNB" at all times (cf. *Instruction sheet on collateral eligible for SNB repos*). For this purpose, the counterparty deposits securities covering the limit at least one bank working day before the limit becomes effective.

SIS is responsible for monitoring compliance with the cover regulations. The counterparty has the right to exchange the collateral for other collateral eligible for SNB repos. SIS values the securities held in the Custody Cover Account "SNB" daily at current market prices. If the collateral falls below the limit as a result of a drop in the value of the securities or administrative operations (where capital and/or coupon payments are due), the counterparty must immediately provide further securities to eliminate the shortfall. One bank working day before they mature, securities are no longer counted towards the limit agreed. If a counterparty does not meet its obligation to provide additional collateral within six hours of notification of a shortfall, the SNB will reduce the limit accordingly. It also has the right to cancel the limit without notice.

Securities that are booked out of the Custody Cover Account "SNB" in connection with repo transactions under the intraday or liquidity-shortage financing facility are still counted towards the agreed limit during the term of such transactions.

# 4. Special-rate repo transactions

## 4.1 Conditions

Each counterparty has the right to obtain liquidity up to the limit set via special-rate repo transactions. This must be repaid together with any applicable interest on the following bank working day (overnight) and must always be covered by collateral eligible for SNB repos amounting to at least 110% (cf. *Instruction sheet on collateral eligible for SNB repos*). Only the SNB GC Basket (collective basket) may be used.

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## 4.2 Fixing and publishing the special rate

The special rate lies 50 basis points above the call money rate. The reference rate is the SARON (Swiss Average Rate Overnight) 12.00 noon fixing of the current bank working day. The special rate is valid until 12.00 noon of the next bank working day and is no less than 50 basis points. Details of the special rate are published via the following electronic information services:

- Reuters      SNBRATES1
- Bloomberg    SNB <go>, Aggregates, Menu item 16

They are also published on the SNB's website: [www.snb.ch](http://www.snb.ch), *Statistics, Statistical publications, Interest rates and foreign exchange rates (current)*.

## 4.3 Procedure

The transactions are generally concluded via the Eurex Zurich Ltd electronic trading platform and settled on a delivery-versus-payment basis. For securities clearing, settlement takes place through the SECOM system operated by SIS, and for Swiss franc clearing, it is carried out through the SIC system run by SIX Interbank Clearing Ltd (SIC). The SNB invites counterparties to draw liquidity under liquidity-shortage financing facility on bank working days. The tender procedure lasts 15 minutes from clearing stop 2 (4 p.m.) and is operationally the same as that applicable for the open market operations (cf. *Instruction sheet on open market operations*). The SNB only accepts offers from counterparties that also have a limit for the liquidity-shortage financing facility. The limit granted also determines the maximum amount of the offer for obtaining liquidity. During the day from 8 a.m. to clearing stop 2 (4 p.m.), counterparties may also obtain liquidity at any time under the liquidity-shortage financing facility via bilateral special-rate repo transactions.

Individual addressed offers must amount to at least CHF 50,000 (minimum cash amount) or a multiple thereof, but must not exceed CHF 100 million (cash amount) (cf. *Technical rules and regulations, payment system applications*, chapter 2: Instructions for SIC). To optimise securities settlement and payment flows, it is advisable to divide the total into a number of part amounts.

The SNB uses the ON SNB SPECIAL RATE (CH0008257153) contract for indications of interest.

Securities used to obtain intraday liquidity can only be used for special-rate repo transactions when the intraday liquidity has been repaid and the securities have been booked back to the Custody Cover Account "SNB".

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## 4.4 Settlement

Settlement of special-rate repo transactions (own trades) is triggered by SIS immediately after conclusion of the transaction and takes the form of delivery versus payment. The payment instructions to the SIC system triggered by special-rate repo transactions must be given no later than clearing stop 3 plus 15 minutes (4.30 p.m.). The condition is that corresponding securities must be deposited by this time in the counterparty's Custody Cover Account "SNB". Reverse settlement, including interest, is triggered by SIS at approximately 8 a.m. on the following bank working day with SIC priority B5.

## 4.5 Default

If a counterparty defaults on delivering securities (opening repo) in connection with a special-rate repo transaction because the intraday liquidity has not been repaid on time and securities in their Custody Cover Account "SNB" at SIS are insufficient, the special-rate repo transaction will be cancelled. The consequences of a delay in the repayment of intraday liquidity are governed by the *Instruction sheet on the intraday facility*.

If a counterparty defaults on a payment obligation (closing repo) under a special-rate 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. 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.

## 4.6 Emergency procedure

In the event of failure of the electronic trading platform, the SNB will conclude special-rate repo transactions by telephone. Counterparties must call 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 via a two-way order (matching). This order must be transmitted no later than 15 minutes before clearing stop 3 (4.30 p.m.).

In exceptional circumstances, the SNB can also provide liquidity under the liquidity-shortage financing facility on the basis of the securities pledged to it in the Custody Cover Account "SNB" (cf. *Instruction sheet on the Custody Cover Account "SNB"*, section 4.4).