

Department III

To participants in Eurex Zurich Ltd's electronic trading platform and to all domestic banks

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Money Market and Foreign Exchange

Treatment of withholding tax on SNB Bills

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

Dear Sir/Madam

The Swiss National Bank (SNB) regularly issues tradable money market debt register claims (referred to below as SNB Bills). Currently, for monetary policy reasons, auctions take the form of a variable rate tender with allotment according to the American auction method (cf. www.snb.ch, *Financial markets, Monetary policy operations, SNB Bills, Issue Conditions*).

The Swiss Federal Tax Administration (SFTA) has, on the one hand, specified the provisions on withholding tax and payment obligations, and on the other, laid down the basis upon which withholding tax on SNB Bills allotted according to the American auction method will be measured. As agreed with the SFTA, we would like to inform you of the specifications stipulated by the SFTA.

In principle, earnings from SNB Bills (i.e. the difference between the redemption price and the issue price) are subject to withholding tax at maturity. Based on the SFTA German-language instruction sheet *Merkblatt Geldmarktpapiere und Buchforderungen inländischer Schuldner* (money market instruments and debt register claims of domestic borrowers) of April 1999 (S-02.130.1), the SNB can make repayments, without deducting withholding tax, to domestic banks and to foreign banks¹ which confirm that they are holding the SNB Bills for their own account. If domestic banks hold SNB Bills for customers or for foreign banks without a confirmation concerning their own holdings, they are required to deduct withholding tax and pass it on to the SFTA. The figure paid out will then be the redemption amount less the withholding tax. In this way, the tax payment obligation is transferred from the issuer to a domestic bank. For tax purposes, the Principality of Liechtenstein is treated as a foreign country. A schematic diagram of the procedure is provided at the end of this letter by way of clarification.

¹ A definition of the term 'foreign banks' is provided in the SFTA German-language instruction sheet *Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)*, dated 22 September 1986 (S-02.123).

The earnings subject to withholding tax in the case of SNB Bills is the difference between the redemption amount (generally the nominal value) and the effective issue price. Due to the large number of issue prices in the American allotment system, it is impossible or, at the very least, difficult to establish the effective taxable earnings at redemption, particularly where SNB Bills have changed ownership.

Consequently, the SFTA has decided always to base its calculation of earnings liable for withholding tax on the lowest price accepted by the issuer (marginal price). The SNB publishes the marginal price on its website (cf. www.snb.ch, *Financial markets, Monetary policy operations, SNB Bills, Auction results*).

The marginal price as the calculation base for measuring withholding tax applies to all SNB Bills that mature after 20 October 2010. Generally speaking, domestic investors can reclaim withholding tax amounts that have – demonstrably – been deducted in tax assessment procedures. In the case of investors abroad, the options for reclaiming withholding tax will depend on any double taxation agreement that is applicable in relation to the country in question.

Should you have any queries, we or the withholding tax department at the SFTA would be happy to answer them.

Yours sincerely
Swiss National Bank

Karl Hug

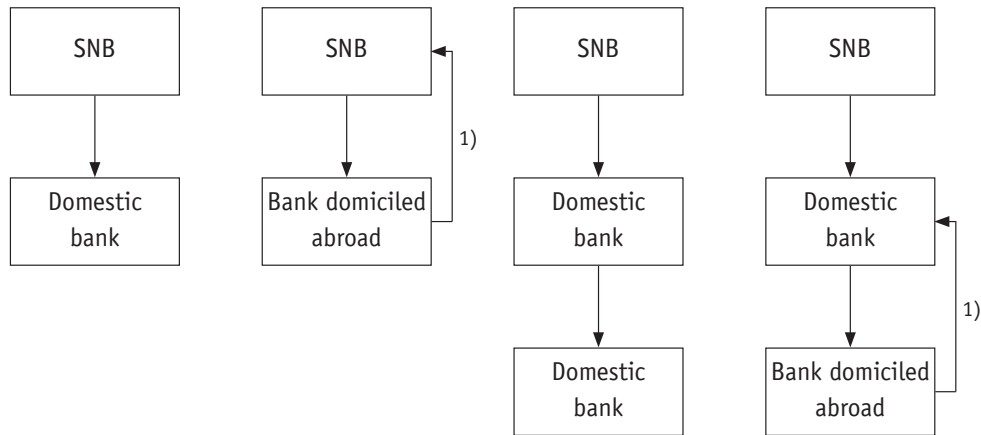
Martin Plenio

Attachment: Schematic diagram

Attachment to SNB circular of 21 October 2010 Withholding tax on SNB Bills

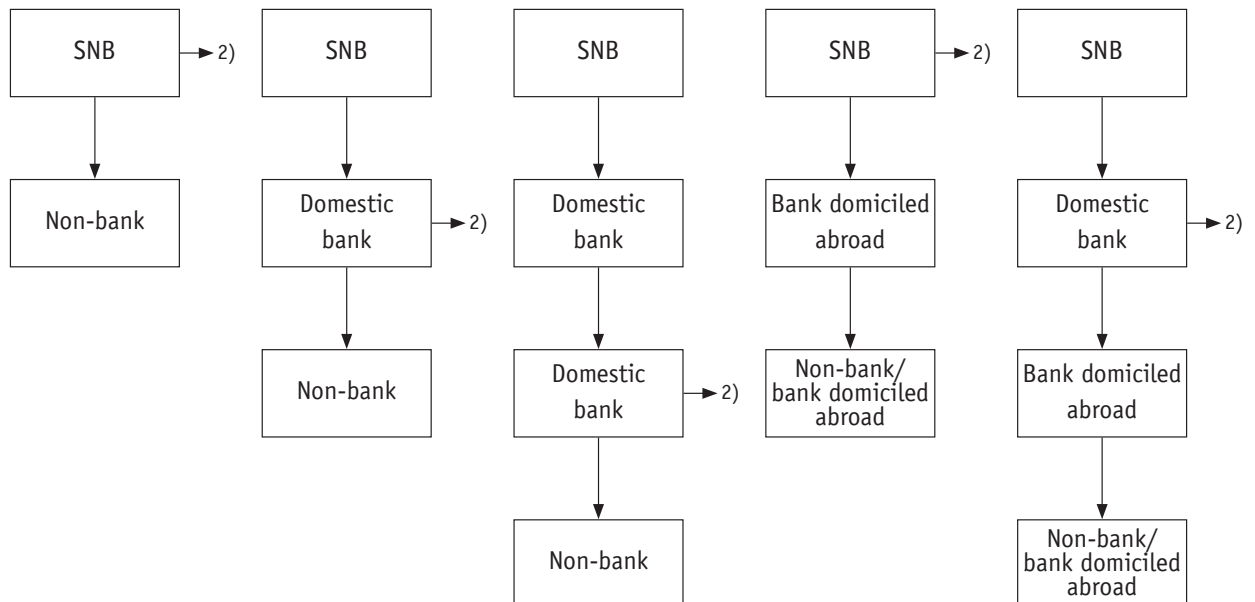
Schematic diagram

Without deduction of withholding tax



1) Tax exemption granted only if bank domiciled abroad provides confirmation that they are holding the SNB Bills for their own account.

With deduction of withholding tax



2) Required to pay withholding tax to the SFTA.