

Investment Policy Guidelines of the Swiss National Bank (SNB)

27 May 2004 (as at 20 November 2008)

1. Purpose and applicability

These guidelines define the scope of the SNB's investment activity and render this scope transparent to the public. They detail the transactions described in art. 9 para. 1 of the Federal Act of 3 October 2003 on the Swiss National Bank (Swiss National Bank Act, NBA) which the SNB may enter into in order to perform its investment policy tasks. The guidelines set out the investment policy principles, the investment instruments as well as the investment and risk control processes. They do not directly constitute any rights and obligations of the SNB with regard to its counterparties or any rights and obligations of counterparties with regard to the SNB. The SNB's Governing Board issued these guidelines on 20 November 2008 based on art. 9 para. 2 NBA.

They apply to assets managed by the SNB. In addition to these guidelines, the SNB's Terms of Business and any specific contractual agreements that may have been entered into are binding on the SNB's counterparties. The authorities of the SNB's statutory bodies and those of employees in connection with the investment activity are governed by internal rules and regulations and the signature rules.

Assets managed by the SNB essentially consist of foreign currency reserves, gold and securities in Swiss francs. Their composition is determined mainly by the established monetary order and the requirements of monetary policy. The SNB holds currency reserves – in the form of foreign currency and gold – in order to have room for manoeuvre in monetary policy at all times.

2. Investment policy principles

The SNB manages its assets based on the mandate laid down in art. 5 para. 2 NBA. Management of the assets is subject to the primacy of monetary policy and is implemented in accordance with the principles of professional asset management.

When investing its assets, the SNB bases its decisions on the three criteria of security, liquidity, and return. It meets the requirement for secure investments by holding a substantial part of its portfolio in the form of government paper. The SNB achieves a high level of liquidity by holding a large part of its foreign

currency reserves in the world's most liquid currencies and securities markets. In addition, there is scope for diversification into other investment instruments. Broader diversification into different investment categories improves the risk/return profile of the assets. It reduces large exposures, strengthens the SNB's balance sheet as a whole and makes it more resistant to various negative scenarios. Diversification contributes to long-term asset preservation and promotes steady growth in foreign currency reserves.

The investment and risk control process is structured so as to avoid conflicts of interest between monetary policy and investment policy. This is achieved by separating responsibilities with regard to monetary policy and investment policy as far as possible. In particular, measures are taken to ensure that no inside knowledge acquired within the SNB can influence investment activity and that no unintentional signal effects are provided. To this end, investments in Swiss shares or in bonds of Swiss companies are generally avoided.

3. Eligible investments

3.1 Interest-bearing investments

3.1.1 Tradable investments

- Bonds across all maturities listed on a stock exchange or traded on an organised market that regularly publishes prices are eligible.
- As a rule, borrowers must be domiciled in an OECD member state or in the European Union.
- Eligible issuers must be borrowers with a combined investment grade rating from the leading rating agencies.

3.1.2 Non-tradable investments

- Time deposits (unsecured deposits), reverse repos (the SNB invests foreign currencies in exchange for collateral) and repos (the SNB takes out foreign currency loans in exchange for collateral) are eligible.

3.2 Gold

Art. 99 para. 3 of the Federal Constitution obliges the SNB to hold part of its currency reserves in gold. It holds the gold physically as bars and coins. The gold holdings are stored both in Switzerland and abroad.

Some of the gold holdings can be lent out. The SNB accepts securities eligible for SNB repo transactions as defined in the *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* as collateral in secured lending transactions.

3.3 Currencies

The majority of investments is held in the world's most important and most liquid currencies. The specific currencies and their share in the investments are published on the SNB website at www.snb.ch on a quarterly basis.

3.4 Equities

Equities of foreign companies included in the leading MSCI share indices are eligible. These are listed shares with sufficient market capitalisation and liquidity.

3.5 Derivatives

Derivatives on all admissible underlying instruments are eligible. Derivatives are regarded as substitutes for the assets underlying the contracts. They are used particularly in situations when the derivatives market is more liquid than the spot market or if an investment position can be managed in a more efficient and cost-effective way by means of derivatives.

4. Responsibilities

4.1 Admission of investments

The Governing Board specifies the eligible investments described in section 3.

4.2 Investment strategy

The Governing Board is responsible for determining the investment strategy, which defines guidelines for the structure, the eligible currencies and investment categories as well as for the management of the assets. In particular, the scope for deviations with regard to the implementation of the strategy is defined. As a rule, the Governing Board decides on the investment strategy once a year.

Risk Management specifies the investment strategy using strategic benchmarks and investment guidelines. Implementation is based on these benchmarks and guidelines.

4.3 Implementation

An internal investment committee is responsible for implementing the investment strategy. Within the defined range, there can be tactical deviations from the strategic benchmark.

The individual portfolios are managed by internal and external portfolio managers on the basis of the specifications set out by the Investment Committee and by Risk Management. Most of the investments are managed internally by Asset Management. External asset managers can be used if this

renders the process more efficient. Their performance can also serve as a benchmark for the internal asset managers.

Swiss franc securities and equity portfolios are managed on a passive basis. The equity portfolios are replications of broad market indices.

Implementation performance is measured using the strategic benchmark.

4.4 Risk control

Risk Management is responsible for risk analysis, risk controlling and risk reporting with regard to the entire investment process. Risk Controlling ensures compliance with the specifications of the Governing Board and all investment guidelines.

The relevant risks relating to the assets are systematically identified, assessed and monitored. Risk and return measurement is carried out based on standard methods and procedures.

Risk Management reports directly to the Governing Board and the Bank Council's Risk Committee. The Bank Council's Risk Committee monitors the investment procedure and risk management on behalf of the Bank Council.

5. Counterparties

Mainly banks and securities houses domiciled in an OECD or EU country can be considered as SNB counterparties for investment and trading.

5.1 Counterparties for non-tradable investments and derivatives

Over-the-counter transactions (OTCs), such as call money and repos, gold lending transactions and off-exchange derivatives, are carried out with counterparties which have a minimum average rating of A from the leading rating agencies.

5.2 Counterparties for trading

Competitive pricing and high-quality settlement are required of counterparties eligible for securities and gold transactions. In addition, these counterparties must be able to handle large volumes of the entire spectrum of trading transactions concluded by the SNB. For reasons of efficiency, the number of counterparties is kept small.

5.3 Custodians

Securities denominated in foreign currency are primarily held at international central depositories and at central banks. Securities denominated in Swiss francs are held at SIS. Settlement takes the form of 'delivery versus payment'.

6. Reporting on investment activity

In its Annual Report, the SNB publishes the principles of its investment and risk policies along with a breakdown of assets and the most important events during the reporting period. Current information on the investment structure and the recorded returns are published on the SNB website at www.snb.ch on a quarterly basis.

7. Amendments to these guidelines

Any amendments to these guidelines will be determined by the Governing Board.

Issued by the Governing Board on 20 November 2008.

Replaces the Investment Policy Guidelines of 27 May 2004.