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Swiss National Bank aligns collateral policy with new liquidity provisions

The Governing Board of the Swiss National Bank (SNB) has redefined the criteria for collateral eligible for SNB repos. This change is in response to both the revision of the Ordinance on the Liquidity of Banks (Liquidity Ordinance), which has been approved by the Federal Council, and the FINMA circular relating to this matter. The redefinition of the eligibility criteria for SNB repos will ensure that all collateral eligible for SNB repos also fulfils the criteria for high-quality liquid assets (HQLA), as per the new Liquidity Ordinance. The changes will enter into force on 1 January 2015.

It is the task of the SNB to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act). To this end, it may enter into transactions with banks and other financial market participants, provided the loans are collateralised by securities (repo transactions). The SNB determines which securities are eligible as collateral.

The key change in the redefinition of collateral eligible for SNB repos is that financial securities issued by financial institutions domiciled outside Switzerland or by domestic insurance companies will now be excluded. This means that, in addition to debt certificates issued by domestic banks, other financial securities will be excluded from the group of collateral eligible for SNB repos. An exception to this exclusion is covered debt certificates issued by foreign financial institutions and domestic mortgage bond institutions. Furthermore, the credit rating requirements for securities in Swiss francs are being brought into line with those for securities in foreign currencies, in other words, the minimum rating will be increased from A to AA–. As a result of these adjustments, the volume of collateral eligible for SNB repos will decline by CHF 400 billion to some CHF 9,500 billion. The changes will increase the quality of collateral eligible for SNB repos. Collateral accepted by the SNB is recognised as a standard on the secured money market. Thus the liquidity of the repo market in Swiss francs will also be retained under the new liquidity provisions.

From 1 January 2015, in all its repo transactions and as cover for the liquidity-shortage financing facility limit, the SNB will accept only collateral which meets the redefined requirements. The criteria and provisions governing the eligibility of securities for SNB repo transactions are set out in the 'Guidelines of the SNB on monetary policy instruments' and in the relevant instruction sheet (cf. www.snb.ch, *Financial markets*, *Monetary policy operations*, *Repos*).