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Introductory remarks by Jean-Pierre Roth,
Vice-Chairman of the Governing Board of the Swiss National Bank

At the beginning of May, after the Federal law on currency and payment instruments had entered into force, we began selling gold on the market. A programme has been set up for the overall sale of 1,300 tonnes of gold over a period of several years. This is in conformity with the agreement concluded between 15 European central banks on 26 September 1999. We have charged the Bank for International Settlements (BIS) to sell a first tranche of up to a maximum of 120 tonnes by the end of September 2000.

Less than two months after the commencement of gold sales, it is still too early for a true evaluation. Nevertheless, the positive reaction of the market in the initial phase of our programme has strengthened our conviction that a strategy combining respect for previous commitments, transparency in the communication of objectives, strict care in the choice of partners and flexibility in daily implementation has the best chance of ensuring successful sales.

We are planning to bring the metal onto the market at regular intervals in order to avoid influencing the price development unduly. In view of the considerable quantities to be sold and the fact that our sales programme extends over several years, we have decided against selling gold unannounced and against forward sales that would only become known after having been completed. We have also abandoned the option of periodic gold auctions, for example monthly auctions. While auctions may seem to be a more efficient and an even more transparent solution, they do not necessarily guarantee us a better price. In fact, our agent maintains a daily presence in the market, which makes it possible for us to take the best advantage of very short-term opportunities. By the end of May we had sold 26.5 tonnes of the yellow metal. This is equal to average sales of 1.15 tonnes per day, and to roughly one-fifth of the programme we are planning to realise until the end of September of this year. The regular publication - every ten days - of the SNB's return ensures the necessary transparency with respect to our operations.

The entry into force of the Federal law on currency and payment instruments has also led to modifications in the presentation of our accounts. In conformity with the evaluation of its other marketable assets, the SNB will in future exhibit gold at market value in its balance sheet. The activation of our hidden gold reserves has yielded a surplus of Sfr 27.7 billion, currently entered in the item Other Liabilities. The revaluation gain will not be distributed but will be allocated to two new provisions at year-end:

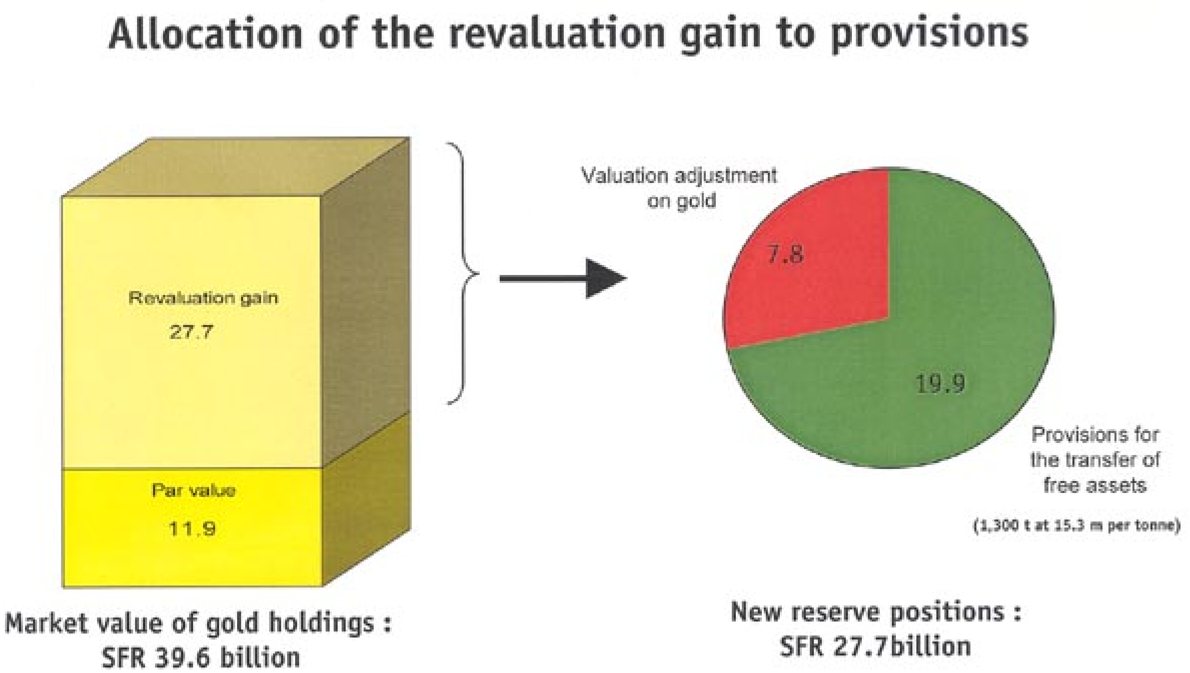
- A first provision under the balance sheet heading *Provisions for the transfer of free assets* will be set up to provide for the transfer of assets not required for implementing monetary policy. These assets are valued at 1,300 tonnes of gold or the respective proceeds from their sale. Even if this transfer is still hypothetical today, we consider it to be a sufficiently strong probability to justify such a provision. Total provisions will represent the proceeds from the sale of gold and the market value of the unsold balance of the 1,300 tonnes. If this provision had been set up on 1 May 2000, it would have amounted to Sfr 19.9 billion. Its value at the end of the year will depend on the proceeds from actual sales and the market value of the remaining gold holdings.
- A second provision under the heading *Valuation adjustment on gold* will also be set up at the end of the year. This position is destined for the profits and losses arising from the gold price variations in respect of the 1,290 tonnes of gold which will constitute our future cash and bullion in hand. In this way we endeavour to avoid that variations in the price of gold will interfere with the method of calculation of the Bank's annual profit. The balance from the initial revaluation profit will be paid into the *Valuation adjustment on gold* account. If this provision had been set up on 1 May 2000, it would have amounted to Sfr 7.8 billion, i.e. the difference between the revaluation gain totalling Sfr 27.7 billion and the amount of Sfr 19.9 billion envisaged for setting up the *Provisions for the transfer of free assets.* This provision will make it possible to cover any losses resulting from a fall in the price of gold down to a level of approximately Sfr 9,300 per kilogram.

In so far as assets that are not required for the conduct of monetary policy are not transferred to their final beneficiaries, we are responsible for their management. Four remarks may be made in this connection:

- Like our monetary reserves, the proceeds from our gold sales will be invested in different financial instruments permitted in terms of article 14 of the National Bank Law. This legal framework which conforms to the monetary functions of a central bank is not ideally suited to the management of a portfolio of free assets. In actual fact, it considerably limits the Bank's investment possibilities. Notably, the Bank is not permitted to buy shares.

- The portfolio of free assets will thus be managed within the same legal framework as the monetary portfolio. However, since its purpose is different, its composition will not be the same. The portfolio of monetary reserves serves to strengthen confidence in the national currency, to establish a line of defence in view of any interventions and a reserve of last resort in the event of a crisis. Its natural exposure to the exchange rate risk is thus considerable. In return, the portfolio of transferable assets, whose function is to assure future beneficiaries of a regular flow of revenue, must carry a more limited risk in this respect.
- The fact that we do not, at present, know the date on which the transfer of free assets from the SNB's balance sheet will take place is an additional constraint on asset management.
- It is a general rule applying to every form of portfolio management that when a considerable risk is incurred in order to achieve a higher yield, this naturally constitutes a probability of losses which is by no means negligible. In order to preserve the value of the capital accumulated through gold sales, a conservative portfolio strategy will be implemented.

Given the various constraints, we cannot hope for the same high returns on our portfolio of free assets as could be achieved by external management. For this reason, we hope that the period during which we bear the responsibility for managing these assets will be as short as possible.



Allocation of gains and losses in the future value of gold holdings