

Department III

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**This is an English translation of a German original.
Only the German original text is authoritative and legally binding.**

Instruction sheet on open market operations

1. Introduction

The purpose of Swiss National Bank open market operations is to provide liquidity for the money market and steer short-term interest rates. The SNB is able to create liquidity and absorb it again. It carries out open market operations through repo transactions and by issuing its own debt certificates (SNB Bills). This instruction sheet describes the conditions and procedures for carrying out open market operations and provides more specific detail than is given in the ‘Guidelines of the Swiss National Bank on monetary policy instruments’.

2. Eligible counterparties

As a general rule, all domestic banks (Switzerland and the Principality of Liechtenstein) with a sight deposit account at the SNB are admitted as counterparties for SNB monetary policy operations.

Other domestic participants in the financial market, as well as banks and other financial market participants that are domiciled abroad, may be admitted as counterparties for monetary policy operations, where this serves monetary policy interests, where the participants or banks contribute to the liquidity of the secured Swiss franc money market, and where the requirements for opening a sight deposit account are met. Applications for opening a sight deposit account and for admission to participation in open market operations should be submitted to Department III in writing.

SNB open market operations are generally concluded via the SIX Repo Ltd electronic trading platform and settled according to the delivery-versus-payment principle. For securities, settlement takes place via the SECOM system operated by SIX SIS Ltd (SIS), and for Swiss francs, it is carried out in the SIC system run by SIX Interbank Clearing Ltd (SIC). In addition to holding a sight deposit account with the SNB, the counterparty must therefore meet the cumulative requirements of all three SNB partners in order to conclude open market

operations with the SNB. SNB counterparties must have a direct connection to the SIC system.

The SNB can establish counterparty limits. It reserves the right to inform foreign central banks, as well as domestic or foreign authorities responsible for the supervision of its counterparties, of its business relationship with the counterparty and any outstanding liabilities.

3. SNB repo auctions

Repo auctions are conducted either by fixed rate tender or variable rate tender. The term of repo transactions may vary from one day (overnight) to several months. The repo rate can be fixed over the term of the transaction or indexed to the SNB policy rate. In the case of an indexed repo transaction, the repo rate is calculated as the simple average of the index values over the term of the repo transaction plus any premium / minus any discount. The cash taker must always cover at least 100% of the liquidity obtained with collateral eligible for SNB repos (cf. 'Instruction sheet on collateral eligible for SNB repos').

The SNB announces the auction conditions (contract, term, procedures, etc.) via the following electronic market information services:

- Refinitiv SNBAUCT1, SNBAUCT2
- Bloomberg SNB <go>, M-Mkt Announcements

Repo auctions are generally held every working day, from 09.00 to 09.10. Offers received after the auction has closed or that do not comply with the SNB's terms, are excluded from the allotment process. Each participating bank can view its individual allotment on the trading platform after conclusion of the auction.

At the end of the auction period, the offer is binding on the participant until allotment by the SNB. The SNB reserves the right to decide against holding an auction at any time during or after the auction period and up to the period immediately before allotment.

The auction and allotment procedures described in the following sections relate to liquidity-providing operations. The provisions apply analogously in the case of liquidity-absorbing operations.

3.1. Auction procedure for fixed rate tenders

The SNB sets the repo rate (fixed or indexed to the SNB policy rate). If the repo rate is indexed, the SNB sets the premium or discount to the SNB policy rate. With their offers, participants submit the amount for which they are willing to obtain liquidity in Swiss francs. Individual offers must be at least CHF 1 million (minimum cash amount).

If the total amount of all offers received exceeds the allotment volume defined by the SNB, the SNB will make a proportional reduction of the amount applied for in each case where the

amount exceeds CHF 10 million for an individual participant. The full amount will be allotted in all other cases.

3.2. Auction procedure for variable rate tenders

With their offers, individual participants submit the amount for which they are willing to obtain liquidity in Swiss francs and the repo rate which they are willing to pay (fixed or indexed to the SNB policy rate). If the repo rate is indexed to the SNB policy rate, participants must submit the premium or discount to the SNB policy rate in their offers. Individual participants may submit as many offers with different repo rates as they wish. Offers with no repo rate are not permissible. The SNB may set a minimum and/or a maximum repo rate for offers. Individual offers must be to at least CHF 1 million.

Dutch allotment system: Swiss franc liquidity is consistently allotted at the lowest repo rate accepted by the SNB to the participants offering that or a higher repo rate. Offers that exceed the lowest repo rate accepted by the SNB are fully satisfied. If the total amount of offers at the lowest accepted repo rate exceeds the remaining amount to be allotted, the latter is allotted proportionally to the participants with the corresponding offers according to the ratio between the remaining amount to be allotted and the total amount of these offers. Offers that fall short of the lowest repo rate accepted by the SNB are not considered.

American allotment system: Swiss franc liquidity is allotted – at the repo rate stated in the individual offer – to the participants that have offered at least the lowest repo rate accepted by the SNB. Offers that exceed the lowest repo rate accepted by the SNB are fully satisfied. If the total amount of offers at the lowest accepted repo rate exceeds the remaining amount to be allotted, the latter is allotted proportionally to the participants with the corresponding offers according to the ratio between the remaining amount to be allotted and the total amount of these offers. Offers that fall short of the lowest repo rate accepted by the SNB are not considered.

4. Quotations on the repo interbank market

In order to influence price formation in the money market, the SNB can place or accept offers (quotes) on the SIX Repo Ltd electronic trading platform.

Counterparties can accept SNB offers at the given conditions. They can reduce SNB offers to a minimum amount of CHF 1 million. However, the SNB can also accept offers from counterparties at any time.

5. Settlement

Settlement of individual repo transactions is triggered by SIS immediately after conclusion of the transaction (overnight funds) or shortly before 08.00 on the value date. As soon as the cash taker has sufficient collateral eligible for repo transactions with the SNB and the cash provider has sufficient liquidity, settlement takes place according to the delivery-versus-

payment principle. The payment instructions to the SIC system triggered by repo transactions carry a high priority ('urgent'). The same procedure is followed at reverse settlement of the individual repo transactions on the maturity date, taking the repo rate into account.

6. Issuance of SNB Bills

The SNB may issue its own interest-bearing debt certificates (SNB Bills) in order to absorb liquidity.

SNB Bills are issued publicly by auction or through private placement. Auctions are conducted either by fixed rate tender or variable rate tender. The SNB may repurchase SNB Bills during their term and sell them again. Interest on SNB Bills is payable on a discount basis. Further details on SNB Bills can be found in the document 'SNB Bills – Issue Conditions' as well as in the notifications of the conditions for individual issues.

7. Failure to perform obligations

If a counterparty fails to properly perform its obligations under a repo transaction for any reason, default interest is payable to the SNB until the day of performance. The default interest rate is calculated as the SNB policy rate plus twice the special-rate surcharge, but is at least 1% (cf. 'Instruction sheet on the liquidity-shortage financing facility'). 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 deposit account, subject to due notification. Moreover, if payment is overdue, a fulfilment request with high priority ('urgent') will be activated by SIS at the beginning of the following clearing day in the SIC system.

8. Emergency procedure

If the electronic trading platform should fail, the SNB will decide on the action to be taken in consultation with SIX Repo Ltd (postponement of auction, or auction by telephone). The SNB will inform counterparties via the information pages of the electronic market information services listed in section 3 above.

When the auction is conducted by telephone, counterparties should use the SNB's main contact number for money market transactions (+41 58 631 77 00). After allotment, the repo contracts must be entered in the system at SIS using a two-way order (matching). This order must be transmitted before clearing stop 2 (18.00). The SNB may conduct repo auctions by telephone at any time in order to test this emergency procedure. Counterparties are required to make the necessary arrangements for this.

In the event of failure of the traditional telephone infrastructure, the satellite telephone number for SNB money market transactions is available (+8816 77 10 26 71).