

Department III

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Instruction sheet on participation in US dollar auctions conducted by the SNB

1. Introduction

The Swiss National Bank (SNB) can make US dollar liquidity available to eligible counterparties. US dollar auctions will be announced on Reuters (SNBAUCT1), Bloomberg (SNBO <go> menu item 10, menu item 5) and the SNB website (www.snb.ch, *Financial markets, US dollar auctions*).

It is possible to make this liquidity available because the SNB can, if necessary, obtain US dollars from the US Federal Reserve using a bilateral swap agreement. The provision of US dollar liquidity is designed to bridge unexpected liquidity bottlenecks in US dollars.

2. Auction

- The auction will take the form of a volume (fixed rate) tender or variable rate tender (American auction) with or without a minimum bid rate.
- The SNB can carry out US dollar auctions via SIX Repo Ltd's electronic trading platform, or by telephone. The type of US dollar auction, and other conditions, will be announced on Reuters (SNBAUCT1) and Bloomberg (SNBO <go> menu item 10, menu item 5).

3. Eligibility to participate

- All banks in Switzerland and abroad that have access to the Swiss franc repo system and are eligible to take part in the SNB's main financing and fine-tuning operations are entitled to participate in the auction.

4. Bids

- When an auction is held, the SNB will accept bids via SIX Repo Ltd's electronic trading platform, or by telephone, until the cut-off time.
- Individual bids must amount to at least USD 1 million.
- For the variable rate tender, counterparties may submit as many bids as they wish. The sum of all bids submitted by one counterparty may not exceed the maximum allotment amount.
- During the auction, bids that have already been made may be cancelled or withdrawn. The allocation will be based on the amount of valid bids at the close of the auction.
- In fixed rate tender auctions for which a minimum bid rate has been set, individual bids must not undercut the specified minimum rate, and should be expressed in full hundredths of a percentage point (i.e. two decimal places at the most).
- Banks that do not comply with the above provisions will be excluded from the auction.
- Individual allotments will be made within 60 minutes of the auction being closed.

5. Allotment at the variable rate tender

- The allotment will be carried out according to the American auction method, i.e. bids will be satisfied in the order of their bid rates.
- Bids with the highest interest rates are satisfied first. Subsequently, bids with successively lower interest rates are accepted until the total amount to be allotted is exhausted.
- If, at the lowest interest rate level accepted (i.e. the marginal interest rate), the aggregate amount bid exceeds the remaining amount to be allotted, the remaining amount is allocated pro rata among the bids according to the ratio between the remaining amount and the total amount bid at the marginal interest rate. The allocated amount will be rounded to the nearest US dollar.

6. Allotment at the fixed rate tender

- If the bids exceed the SNB's desired allocation volume, the requested amount will be reduced pro rata. Otherwise, counterparties will be allocated the full amount for which they have submitted a bid.

7. Collateral

- The US dollar liquidity obtained must be covered at least 100% with collateral eligible for SNB repos (cf. 'Instruction sheet on collateral eligible for SNB repos'). The 'Instruction sheet on collateral eligible for SNB repos' shall apply analogously.

- As in the case of repo transactions in Swiss francs, SIX SIS Ltd (SIS) will value the open repo positions twice a day, and will trigger same-day margin calls. Consequently, there is no initial margin on repo transactions in US dollars.

8. Settlement

- If the auction is conducted by telephone, the transaction with banks that have received an allocation is concluded as a bilateral USD repo via SIX Repo Ltd's electronic trading platform.
- Settlement of the transactions is carried out automatically via the Multi-Currency Repo Service offered by SIS.
- The securities must be available in the participating bank's Custody Account at SIS on the day of settlement, by 18:00 (CET) at the latest.
- Participating banks must hold a separate US dollar cash account with SIS (cf. SIS Product Guide on multi-currency repos, art. 1.2.1, as well as – analogously – art. 4.1.1). If no relevant account relationship exists, SIS will open a US dollar cash account for the counterparties participating in the auction.
- For the time being, the SNB is taking over the function of correspondent in the settlement of US dollar payments for transactions concluded via the SIX Repo Ltd trading platform, on behalf of SIS. Payments arising out of transactions in US dollars with the SNB must be made through the Federal Reserve Bank of New York and the SNB. The instructions for payment set out in the 'Instruction sheet on the settlement of payments arising out of US dollar transactions with the SNB' must be observed.
- By participating in the auction, the counterparty undertakes to ensure that, when unwinding the repo transactions, the transfer of US dollars to its US dollar cash account with SIS (including repo interest) is guaranteed by 18:00 (CET) at the latest (cf. SIS Product Guide on multi-currency repos, art. 4.2). Further information may be found in the 'Instruction sheet on the settlement of payments arising out of US dollar transactions with the SNB' and the SIS Product Guide on multi-currency repos.
- If a counterparty defaults on a payment obligation, default interest will be payable to the SNB until the day when the payment is made. The default interest is 2 percentage points above the weighted average interest rate of the repo auction.

9. Publication of results

- A summary of the auction results will be published on the day of the auction.

10. Contacts

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