



# 1 National referendum on the gold initiative and the counter-proposal of the Federal Assembly

On 22 September 2002, a federal referendum was held on the use of National Bank gold reserves no longer required for monetary policy purposes. In this referendum, neither the people's initiative of 30 October 2000, "Surplus gold reserves for the (Federal) Old Age and Survivors Insurance Fund (gold initiative)", nor the counter-proposal of the Federal Assembly of 22 March 2002, "Gold for the (Federal) Old Age and Survivors Insurance Fund, the cantons and the Swiss Solidarity Foundation", was approved. The contents of the Monetary Article of the Federal Constitution (Art. 99 FC) was thus left unchanged and was also not extended by a transitional provision. The use of the gold reserves no longer needed remains an unresolved issue. The constitutional provision to the effect that at least two-thirds of the net profit of the Swiss National Bank is allocated to the cantons (Art. 99 para 4 FC) applies without restriction.

The lack of a special legal basis for the use of the reserves no longer needed means that, for the time being, these are not available for other public purposes. They will still be shown in the balance sheet of the National Bank. The earnings from gold sale investments flow into the ordinary income statement. The National Bank, however, considers it desirable for the reserves no longer needed to be separated from the Bank's assets in order to avoid conflicts of interest between monetary policy and asset management.

**Double "no" vote**

**Significance for the National Bank**

## 2 Total revision of the National Bank Law

### Results of the consultation procedure

On 16 January 2002, the Federal Council took note of the results of the consultation procedure which had been conducted on the basis of a draft by a group of experts on the total revision of the National Bank Law (cf. 94th Annual Report, p. 47). It stated that the draft law had met with wide approval and published the report on the consultation procedure.

### Guidelines issued by the Federal Council

At the same time, the Federal Council passed a number of basic decisions for proceeding. Thus it determined that the National Bank should maintain the legal form of a joint-stock company governed by special law, and decided in favour of a legal domicile in both Berne and Zurich. The Federal Council confirmed the wording of the central bank mandate as laid down in the consultation procedure draft: "The National Bank shall pursue a monetary policy serving the interests of the country as a whole. It shall ensure price stability. In so doing, it shall take due account of the development of the economy". It proposed a three-fold accountability structure for the National Bank vis-à-vis the Federal Council, Parliament and the public as a counterbalance to independence. It outlined the basic concept of the minimum reserve requirement and the oversight of payment systems. The Federal Council upheld the distribution of the National Bank's profits to the Confederation and the cantons in the proportion of one-third to two-thirds. Furthermore, it decided that the Bank Council must approve the level of provisions and it expressed its support for reducing the Bank Council from its current 40 members to 11 members in the future.

### Message and draft law for consideration by the Federal Parliament

Under these terms of reference, the Federal Department of Finance, in conjunction with the National Bank, has drafted a Message on the revision of the National Bank Law. It was passed by the Federal Council on 26 June 2002 for consideration by the Federal Parliament. From the vantage point of the National Bank, the draft of the revision submitted to Parliament has been refined significantly compared with the preliminary draft of the group of experts: thus the tasks of the National Bank now include co-responsibility for the stability of the financial system. With this, the lender-of-last-resort function has become embodied in the law. Furthermore, in addition to payment systems relevant in terms of risk, securities settlement systems are now also made subject to oversight by the National Bank. Cooperation between the system oversight authority (National Bank) and the banking supervisory authority (Swiss Federal Banking Commission or a foreign supervisory authority) will be specifically laid down in the National Bank Law. Moreover, various amendments to the Banking Law and the Stock Exchange Act are proposed with a view to better adapting the supervisory framework for system operators to their special characteristics. Where minimum reserves are concerned, authority is vested in the National Bank to extend the reserve obligation by ordinance to issuers of electronic money as well as to other issuers of payment instruments. Furthermore, the law specifies, in several respects, the basis for calculating the minimum reserves.

### 3 New profit distribution agreement

On 5 April 2002, the Federal Department of Finance and the National Bank concluded a new agreement concerning the distribution of the Swiss National Bank's profit. The new agreement replaces the current profit distribution agreement of 24 April 1998, which lays down allocations to the Confederation and the cantons of Sfr 1.5 billion per annum up to and including the 2002 business year. The new agreement is valid for a period of 10 years, i. e. it comprises the 2003 to 2012 financial years.

**1998 agreement replaced**

At the end of 2001, the National Bank held provisions for market, credit, liquidity and operating risks exceeding the targeted level by Sfr 13.4 billion. This surplus is to be reduced over a period of 10 years. This will make it possible to increase profit distribution to Sfr 2.5 billion as from spring 2004. Moreover, the profit of Sfr 1.5 billion to be distributed in spring 2003 according to the current agreement can already be raised to Sfr 2.5 billion by means of a special allocation of Sfr 1 billion. Once the distributable surplus has been reduced, the profit distributed by the National Bank will be limited to the level of income actually earned – approximately Sfr 900 million p.a. on the basis of today's figures.

**Higher profit distribution**

The substance of the profit distribution agreement has also been refined. The rule of thumb, according to which the provisions of the National Bank increase in line with economic growth, is henceforth to be based on nominal gross domestic product (formerly gross national product). The targeted level of currency reserves is now calculated to include gold reserves (basis: 1,290 tonnes of gold) in addition to foreign exchange reserves. The free assets of the National Bank, amounting to 1,300 tonnes of gold or the proceeds from intermediary gold sales, are not included in the calculation. As up to now, a minimum level of provisions will ensure that the conduct of monetary policy will not be jeopardised even in the event of unexpected losses in earnings of the National Bank: provisions may not fall below the targeted level by more than Sfr 10 billion. At the same time, a newly introduced upper level will ensure that the planned reduction in surplus provisions is not delayed unnecessarily as a result of higher-than-forecast central bank earnings: provisions may not exceed the envisaged reduction volumes by more than Sfr 10 billion. In any case, the level of the agreed amount for distribution will be reconsidered after a period of five years.

**Content refined**