# Other central bank functions

# 1 Investment of assets

## 1.1 Basis

**Nature and purpose of the National Bank's assets**

The National Bank's assets essentially consist of foreign currency, gold reserves and financial assets in Swiss francs (securities and claims from repo transactions). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy.

**Role of assets within the monetary policy framework**

A considerable part of the National Bank's assets directly serve the implementation of monetary policy. In order to supply the economy with base money and to control money market rates, the National Bank purchases securities (repos) or foreign exchange (swaps) from the banks on a temporary basis. As in the previous year, monetary policy was implemented in 2003 exclusively by means of repo transactions.

**Foreign exchange reserves and gold**

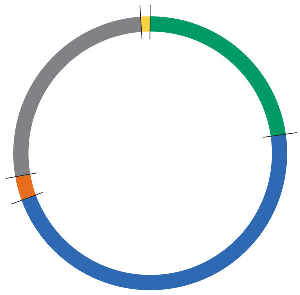
International reserves are assets, especially foreign exchange reserves and gold holdings, that the National Bank can use for making international payments. The National Bank can sell foreign exchange reserves against Swiss francs at any time in order to support the external value of the currency. The National Bank's monetary gold holdings help to ensure that Switzerland is able to pay foreign countries in emergencies.

**Free assets**

In spring 2000, the National Bank began selling that part of the gold reserves no longer required for monetary policy purposes (cf. 93rd Annual Report, page 51). The gold sales are effected within the framework of the agreement concluded between 15 European central banks in September 1999, which forms the basis of the annual sales quotas. The proceeds from the gold sales are managed separately, but are not shown separately in the books since they do not constitute separate assets in the legal sense.

**Scope for managing assets**

The National Bank Law specifies both the types of assets which the National Bank may acquire and the instruments it may employ for their management. The National Bank manages its assets as profitably as possible within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate.



**Structure of National Bank assets**
in percent

Gold 23

Foreign exchange reserves 47

Other foreign currency assets 3

Domestic financial assets 27

Other domestic assets 1

Total: CHF 118.1 billion.
Balance sheet values, average

**Investment and risk control**

The Governing Board fixes the investment strategy and defines the range within which Asset Management implements a market-oriented investment policy. An investment committee makes the tactical investment decisions and sets the guidelines for the individual portfolio managers. The performance at the different levels is assessed through the consistent use of benchmarks and the corresponding performance figures. The observance of the guidelines and limits is monitored systematically. Overall supervision lies with the Bank Council.

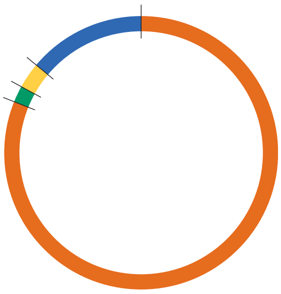
## 1.2 Monetary foreign exchange reserves

**Investment principles**

The National Bank invests its monetary foreign exchange reserves – i.e. foreign currency investments excluding the part allocated to the so-called free assets (cf. page 55) – according to the criteria of liquidity, safety and performance. The bulk of these reserves are invested in fixed-income securities. The National Bank ensures that, if necessary, it can sell the investments at short notice without incurring undue losses. The current National Bank Law permits the acquisition of liquid marketable debt certificates issued by foreign governments, international organisations and foreign banks. The National Bank also uses interest rate futures and swaps for purposes of risk management.

**External asset managers**

External asset managers had 7.4% of all foreign exchange reserves under management at the end of 2003. With these management mandates, the Bank is able to tap into investment segments such as mortgage-backed securities in the United States and international bond portfolios. A specialised global custodian processes the business transactions for the externally managed foreign exchange reserves.



**Monetary foreign exchange reserves by debtor**
(excluding free assets)
in percent

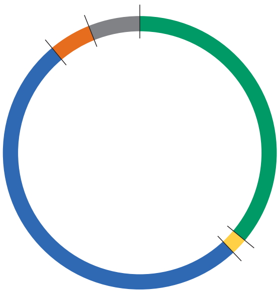
Government securities 81

Securities with indirect government guarantee 2

Monetary institutions 3

Banks 14

Total: CHF 41.7 billion.
End 2003



**Monetary foreign exchange reserves by currency**
(excluding free assets)
in percent

US dollars 36

CA dollars 2

Euros 51

Danish kroner 5

Pounds sterling 6

Total: CHF 41.7 billion.
End 2003

Investment activity and performance

At the end of 2003, foreign exchange reserves amounted to CHF 41.7 billion, thus falling CHF 1.2 billion short of the previous year's level. Foreign currency investments were reduced by CHF 2.5 billion to finance the distribution of profits to the Confederation and the cantons in the spring of 2003. Income earned in 2003 was not sufficient to compensate this outflow. The average duration of the foreign exchange reserves was just under five years. The US dollar's share in the foreign exchange reserves was lower than the strategic target figure of 40%. This had a positive effect on the performance. On the whole, the yield on monetary foreign exchange reserves amounted to 3.0% compared with 0.4% in the previous year.

**Annual performance of monetary foreign exchange reserves**
Yields in percent

| | 2001 | | 2002 | | 2003 | |
|---|---|---|---|---|---|---|
| **Currency portfolio** | Local currency | CHF | Local currency | CHF | Local currency | CHF |
| US dollar | 6.3 | 9.1 | 12.1 | −7.3 | 1.8 | −8.9 |
| Euro | 5.7 | 2.7 | 9.2 | 7.1 | 3.9 | 11.7 |
| Yen | 1.9 | −8.6 | – | – | – | – |
| Pound sterling | 5.7 | 5.0 | 8.3 | −9.3 | 2.6 | 1.8 |
| Danish krone | 5.6 | 3.0 | 9.4 | 7.5 | 4.4 | 12.0 |
| Canadian dollar | 7.9 | 4.0 | 8.7 | −0.2 | 5.0 | 14.8 |
| | | | | | | |
| Total foreign exchange reserves | | 5.2 | | 0.4 | | 3.0 |

## 1.3 Swiss franc bonds

**Investment principles**

The Swiss National Bank holds a part of its investments in Swiss franc bonds. It manages this portfolio subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. It therefore pursues a passive investment policy. Since 2000, the SNB has been reproducing the maturity and rating structure of the Swiss Bond Index. The index replicates the market for Swiss franc bonds and includes all the debtor categories permitted by the National Bank Law: the Federal Government, cantons and municipalities, domestic and foreign banks and mortgage bond institutions, foreign governments and international organisations. To eliminate any potential conflicts of interest, securities issued by domestic banks have not been bought since the beginning of 2003.

**Investment performance**

At the end of 2003, the market value of the Swiss franc bonds – without the part allocated to the free assets – amounted to CHF 6.1 billion, compared with CHF 6.0 billion in the previous year. The duration was 4.7 years. The interest rate development led to a distinctly lower yield of 1.4% vis-à-vis the previous year (10%).

## 1.4 Gold lending

**Investment principles**

The agreement on gold sales concluded in September 1999 between 15 European central banks requires the Swiss National Bank to limit its gold lending to 328 tonnes, the level at that time. At the end of 2003, the amount of gold lent was 232.9 tonnes. The National Bank's counterparties are some twenty domestic and foreign financial institutions. They pay interest on the temporary loan of gold.

**Swiss franc securities by debtor**
(excluding free assets)
in percent

Confederation 29
Cantons 10
Municipalities 4
Mortgage bond institutions 17
Banks 2
International organisations 8
Foreign borrowers 30

Total: CHF 6.1 billion.
End 2003

The SNB concludes a part of its gold lending against securities collateral. This not only reduces the credit risk significantly, but also the profit. At the end of 2003, 47.7% of all gold lending was secured by such collateral. Secured gold lending transactions concentrated on maturities of one to five years.

**Long-term lending against securities collateral**

In 2003, the National Bank achieved a yield of 0.6% on its gold lending activities. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 13 months.

**Investment performance**

## 1.5 Free assets

**Principles**

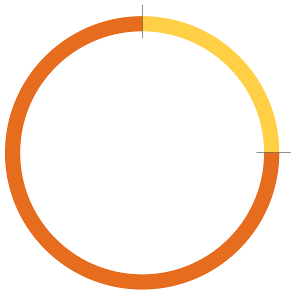
Since it has not yet been determined how the free assets are to be appropriated, they will continue to be shown in the National Bank's balance sheet for the time being. Gold holdings are gradually being sold. The proceeds from these sales are invested in a range of financial assets that are managed separately from the monetary foreign exchange reserves. In essence, the investment process is structured similarly to that for foreign exchange reserves.

**Gold sales**

In 2003, the National Bank sold 283.4 tonnes of gold at an average price of USD 363.7 per ounce. The proceeds amounted to CHF 4.5 billion. Of the original 1,300 tonnes, 956.9 tonnes were thus sold by the end of the year. The sales were concluded at regular intervals and in such quantities as to burden the market as little as possible.

**Hedging a part of the currency risk**

The agreement on gold sales of September 1999 severely limits the options for hedging future gold sales against an unfavourable movement in the Swiss franc gold price. The National Bank may therefore not use derivative instruments to hedge against the gold price risk. It can, however, reduce the currency risk attached to future US dollar-denominated proceeds from gold sales. For this reason, it concluded dollar forward sales against Swiss francs and euros to the extent of 35% of future proceeds in dollars. In 2003, the drop in the dollar exchange rate resulted in a profit of CHF 334.2 million from hedging transactions, following a profit of CHF 741.3 million in the previous year.



**Market value of free assets**
in percent

Gold (earmarked for sale) 25

Investments in foreign currencies and Swiss francs 75

Total: CHF 22.4 billion.
End 2003

**Investment of proceeds from gold sales**

Proceeds from gold sales are invested with borrowers with an excellent rating. The portfolio consists mainly of bonds issued by public-law institutions, as well as a small proportion of time deposits with domestic and foreign banks. At the end of 2003, 10% of the investment portfolio consisted of Swiss franc denominated bonds, and another 48% was hedged against currency risks. The rest of the portfolio was invested in euros (29%), US dollars (6%) and other currencies (7%). The duration was 2.8 years. A yield of 4.0% was achieved.

**Free assets at year-end**

At the end of 2003, the market value of free assets – including the replacement value of hedging transactions – amounted to CHF 22.4 billion. CHF 5.7 billion of this was accounted for by the remaining gold reserves earmarked for sale, and a total of CHF 16.2 billion by investments denominated in both foreign currency and Swiss francs. The market value of the free assets was CHF 1.2 billion higher than the CHF 21.2 billion provision for their assignment. The difference results from the fact that the income received from managing the proceeds from gold sales is not included in this provision.

## 1.6 Risk control and overall performance

**Risk management principles**

The National Bank – through its monetary and investment policy activities – incurs diverse risks. The National Bank's relevant financial risks are identified, assessed and controlled within the framework of its risk management system. Risk management is carried out by means of a system of guidelines and limits. The focus is on those assets that are managed with the intention of achieving a profit. Market risks, i.e. currency, gold price and interest rate risks, are of crucial importance. Exchange rate and interest rate risks are primarily managed by diversification. The National Bank counters liquidity risks by holding the majority of its investments in the world's most liquid currencies and investment markets. In addition, it also incurs certain credit risks. These investments are limited to borrowers with above-average credit ratings.

**Risk measurement**

Risk measurement is based on standard risk indicators and procedures. In the case of market risks, the emphasis is on sensitivity analyses and value-at-risk calculations whereas in the case of credit risks the focus is on information provided by the major rating agencies. To gain an overall picture of risk, the risk indicators are aggregated over all investment categories, instruments and the different organisational units involved.

**2003 risk profile of the monetary assets...**

There were only minor changes in the risk profile of the monetary assets compared with the previous year. Currency risks and gold price risks were the main components of market risks. Furthermore, there were considerable interest rate risks as a result of the investments having a duration of barely five years on average. The credit risks remained modest. The majority of investments were held in government paper or – in the case of monetary repos – were secured by collateral. The remaining investments exposed to credit risks were bonds with above-average ratings and exposures to banks (time deposits, gold lending and derivatives).

...and of the free assets

The free assets were managed with a more conservative approach than the monetary assets. This is due to the uncertainty as to when those free assets will be paid out and to the fact that certain monetary restrictions are irrelevant with regard to the free assets. While the National Bank leaves the currency risk on monetary foreign exchange reserves unhedged, it can be limited by concluding foreign currency forward transactions in the case of the free assets. A significant part of the currency risk on these investments was hedged in this way. Moreover, the duration of these investments was only three years. While the gold price risk was becoming less of a factor in the overall risk attached to the free assets on account of the continuous gold sales during the course of the year, it was still predominant. The overall risk remained basically unchanged compared with the previous year. Measured by the value-at-risk, it was slightly below the year-earlier level.

**Overall result in 2003**

The yield on total assets amounted to 4.2% in 2003. The gold price in Swiss francs exhibited a firmer trend during the year, thus making a significant contribution to the overall result. The dollar, however, lost considerable ground. Among the foreign currency reserves, this development was largely offset by the appreciation of the euro. The yield on the free assets was only marginally eroded by the fall in the dollar exchange rate, since the bulk of the dollar exposure had been hedged against exchange rate losses.

# 2 Payment transactions

## 2.1 Basis

**Overview**

In Switzerland, payment transactions are handled primarily by the National Bank, the commercial banks and the postal service (Swiss Post). The National Bank supplies the economy with cash via the banking system and Swiss Post. In the area of cashless payment transactions, the National Bank keeps the participants' accounts in the Swiss Interbank Clearing System (SIC), which it also oversees and operates. SIC is the major payment system in Switzerland. The banks and Swiss Post process both their large-value payments and increasingly their retail payments through this system. Swiss Interbank Clearing AG, a subsidiary of Telekurs Holding, is entrusted with handling the technical and operational part of SIC. The Telekurs Group is a joint venture of the Swiss banks.

## 2.2 Cashless payment transactions

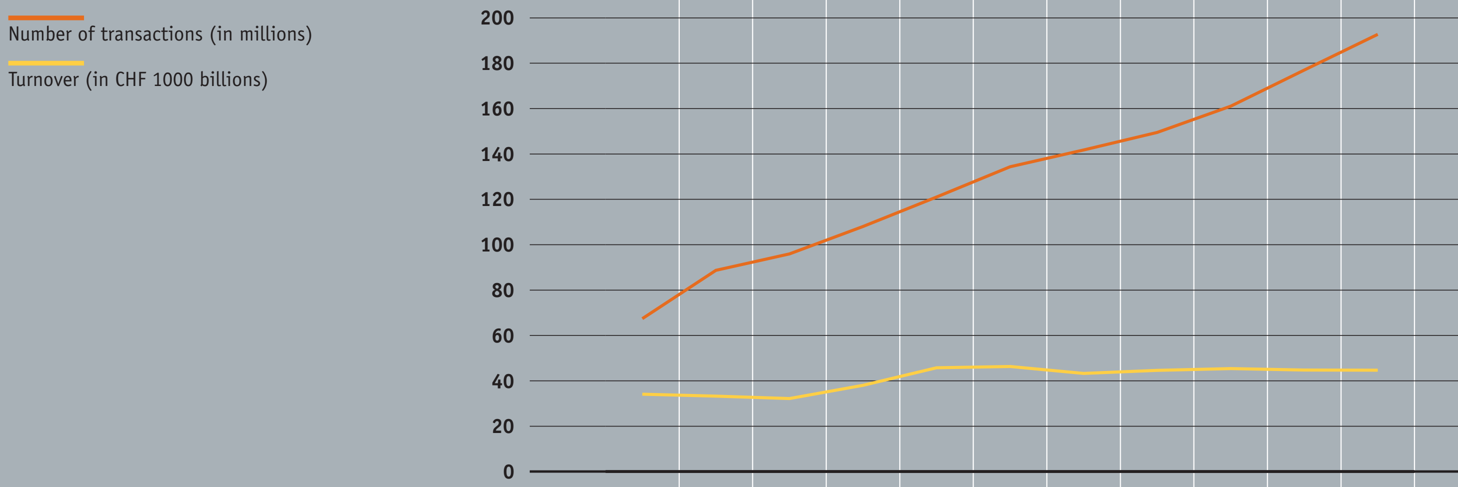
**More payments but lower volume through SIC**

At the end of 2003, there were 307 participants in SIC, compared with 314 at the end of 2002. SIC handled 768,000 payments a day, worth some CHF 178 billion. The average amount per payment was CHF 232,000. In the past few years, this amount has gone down steadily. The reason for this is that banks are no longer interested in processing their retail payment transactions via retail payment applications (data carrier exchange system [DTA], direct debiting [LSV], ATM withdrawals, etc.), but rather directly in the form of single transactions via SIC. The volume from retail payment applications in 2003 amounted to CHF 287.1 billion compared with CHF 300.1 billion in 2002. This is equivalent to 0.6% (2002: 0.7%) of the total turnover in SIC.

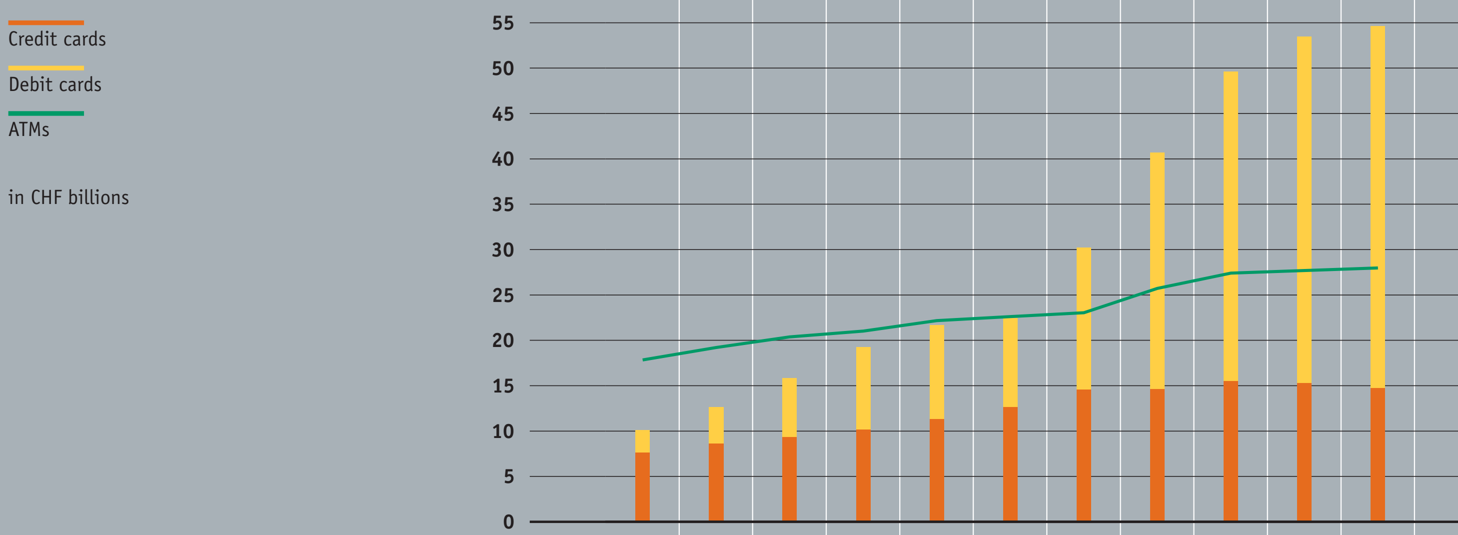
**Payment flows in SIC**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Transactions per day** in thousands | | | | | |
| Average | 556 | 595 | 644 | 705 | 768 |
| Maximum | 1 384 | 1 821 | 2 078 | 1 874 | 2 145 |
| **Volume per day** in CHF billions | | | | | |
| Average | 170 | 178 | 182 | 180 | 178 |
| Maximum | 296 | 291 | 274 | 270 | 284 |
| **Average volume per transaction** in CHF thousands | | | | | |
| Average | 305 | 299 | 282 | 253 | 232 |
| **Average liquidity per day** in CHF millions | | | | | |
| Sight deposits (end of day) | 3 503 | 3 336 | 3 339 | 3 327 | 4 811 |
| Intraday repos | 2 221 | 2 074 | 2 566 | 3 897 | 5 972 |

### Transactions and turnover in Swiss Interbank Clearing per year




### Payments with cards and ATM withdrawals



The value of payments effected with credit and debit cards grew by 2.1% in 2003, while cash withdrawals at ATMs (Bancomat and Postomat) registered a 1.1% increase.

**Payment transactions in euros**

The Swiss banks and Swiss Post run a special clearing bank in Frankfurt, Swiss Euro Clearing Bank (SECB). It operates the euroSIC clearing system. Most Swiss banks, in addition to Swiss Post, execute their euro payments through this system. Furthermore, the SECB secures access to TARGET (Trans-European Automated Real-time Gross settlement Express Transfer System). The transaction volume in euroSIC increased in 2003, averaging EUR 1.9 billion per day, compared with EUR 1.7 billion in 2002. In 2003, the number of euroSIC payments rose to 1.9 million, around 40% of which were cross-border transactions.

**Continuous Linked Settlement**

September 2002 saw the start of the Continuous Linked Settlement (CLS) system. CLS is a global payment system for the settlement of foreign exchange transactions in eleven major currencies. Since CLS settles both legs of a foreign exchange transaction simultaneously (delivery-versus-payment principle), settlement risks that existed previously can now be eliminated. The settlement via CLS of amounts in Swiss francs is made possible via a direct link between SIC and the CLS Bank, which operates the CLS system. In 2003, the number of transactions per day in Swiss francs was 4,359, worth a total of CHF 46.6 billion per day. The Swiss franc accounts for 4.0% of the total value of foreign exchange transactions settled in CLS.

## 2.3 Provision of currency

**Higher volume of currency in circulation**

In 2003, the average banknote circulation was CHF 35.7 billion, i.e. 1.7% more than in 2002. At CHF 2.3 billion, the average volume of coins in circulation equalled the previous year's figure.

**Banknotes**

In 2003, the National Bank put 120 million freshly printed banknotes with a face value totalling CHF 8.6 billion into circulation. It destroyed 115.2 million damaged or recalled notes with a face value of CHF 9 billion.

In 2003, the National Bank's offices registered a slight decrease of 2.7% in currency turnover, bringing the total to CHF 132.2 billion. They received roughly 425 million, i.e. 5.1% fewer notes than in the previous year. Receipts of banknotes at the Berne Head Office were up as a result of a cash processing facility rearranging its organisation. Cash processing facilities specialise in sorting and distributing cash on behalf of third parties. The Lugano, Geneva and Zurich offices received fewer notes than in the previous year.

**Decrease in currency turnover**

In 2003, the Swiss National Bank for the first time opened a cash deposit facility at a cash processing facility. A cash deposit facility is a stock of banknotes that the National Bank sets up with a third party. However, the National Bank retains ownership of the assets stored in the external deposit facility. The holder of a cash deposit facility may withdraw or deposit cash from the deposit facility provided that there are sufficient funds in the respective sight deposit at the SNB. Cash deposit facilities reduce the number of transports, thus enhancing the efficiency of the provision of currency. Consequently, turnover at the National Bank's offices is likely to recede further.

**Cash deposit facilities**

Turnover at the agencies operated by the cantonal banks stabilised at CHF 14.1 billion. This ended the downward trend of cash turnover at the agencies. The decline was attributable to the increased volume of business of the cash processing facilities operating in the whole of Switzerland.

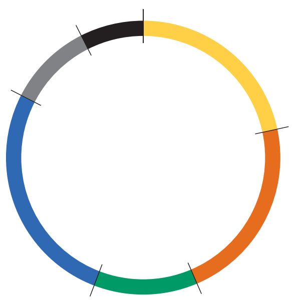
**Agencies**

While processing banknotes received, the National Bank secured 190 counterfeits during the period under review.

**Counterfeits**

The National Bank is entrusted by the Confederation with the task of coin circulation. Its role is spelled out in the Federal Law on Currency and Payment Instruments (art. 5).

**Coinage**



**Banknotes in circulation**
Denominations – millions

CHF 10s: 58

CHF 20s: 59

CHF 50s: 33

CHF 100s: 72

CHF 200s: 27

CHF 1000s: 20

Annual average

# 3 Services on behalf of the Confederation

**Basis**

The National Bank acts as banker to the Confederation. The current National Bank Law lays down the services to be performed on behalf of the Confederation and stipulates that most of these services be rendered free of charge. They comprise payment transactions, coinage, borrowing in the money and capital markets as well as the investment of funds and safe custody.

**Money market business**

The Confederation holds its liquid funds in the form of sight deposits or short-term time deposits at the National Bank. In the event of liquidity bottlenecks, the National Bank assists the Confederation in taking out money market loans from banks. The National Bank pays interest at market rates on time deposits held with it by the Confederation, and at the call money rate on sight deposits up to a limit of CHF 600 million. Swiss Post places its liquid funds directly on the money market.

**Money market debt register claims and Confederation bonds**

In 2003, the National Bank arranged 53 issues of money market debt register claims (MMDRCs) and 20 bond issues on behalf of the Confederation – both by auction – via the auction system of the electronic trading platform Eurex Repo. MMDRCs to the total amount of CHF 57.8 billion were subscribed, and CHF 40.1 billion were allocated. Federal bonds were subscribed for a total amount of CHF 18.7 billion, of which CHF 14.9 billion were allocated.

**Confederation bonds and money market debt register claims**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| **Number of issues**[1] | | | | | |
| MMDRC | 52 | 52 | 52 | 52 | 53 |
| Confederation bonds | 10 | 14 | 14 | 15 | 20 |
| **Total subscribed** in CHF billions | | | | | |
| MMDRC | 75.7 | 62.7 | 53.0 | 54.7 | 57.8 |
| Confederation bonds[2] | 8.1 | 15.6 | 12.6 | 9.9 | 18.7 |
| **Total allocated** in CHF billions | | | | | |
| MMDRC | 46.8 | 42.4 | 39.7 | 40.6 | 40.1 |
| Confederation bonds[2] | 4.1 | 9.3 | 7.5 | 8.4 | 14.9 |
| **Outstanding at year-end** in CHF billions | | | | | |
| MMDRC | 17.1 | 13.4 | 11.5 | 12.4 | 10.7 |
| Confederation bonds[3] | 46.5 | 54.1 | 62.1 | 70.2 | 82.6 |

1 By date of payment
2 Excluding the Confederation's own tranches
3 Including own tranches placed in the market by the Confederation

**Administration and settlement services, coinage**

The National Bank settles certain domestic and international payments of the Confederation. It also keeps the federal debt register and administers securities holdings and objects of value on behalf of federal agencies and associated enterprises. The National Bank also distributes, processes and stores large quantities of coins on behalf of the Confederation. The expenditure for coinage services provided on behalf of the Confederation amounted to CHF 9.7 million in 2003.

# 4 Cooperation with federal agencies

On a national level, the National Bank cooperates with the Federal Department of Finance and the Swiss Federal Banking Commission, but also with other federal agencies.

## 4.1 Integrated financial market supervision

**SNB participates in drafting federal law**

The National Bank is represented in the commission of experts chaired by Ulrich Zimmerli. Based on the recommendations of the previous group of experts headed by Jean-Baptiste Zufferey, the commission is in the process of preparing the legal foundation for the integration of financial market supervision. In July 2003, the commission presented the first part of its report as well as a draft of a federal law on financial market supervision (Financial Market Supervision Act; FINMAG). The National Bank submitted its comments in the context of a consultation procedure.

**Establishment of a Federal Financial Market Supervisory Authority**

The interim report by the "Zimmerli Expert Commission" calls for the establishment of a Federal Financial Market Supervisory Authority (FINMA) in the form of an institution under public law. As a first step, the Swiss Federal Banking Commission and the Federal Office of Private Insurance are to be integrated; additional authorities could be integrated at a later point. FINMA is to enjoy far-reaching independence and, in particular, budgetary autonomy. As a next step, the commission will determine in detail the possible catalogue of sanctions to be imposed by the Financial Market Supervisory Authority as well as considering the possibilities of making administrative law more stringent.

**Consultation procedure**

During the consultation procedure, the National Bank was of the opinion that the reasons for merging the supervision of banks and insurance companies into a single supervisory authority, as already mentioned in the Zufferey Report, are still valid. At the same time, however, it cautioned against exaggerated expectations. Moreover, it opposed intentions to burden the future FINMA with tasks that do not belong to the core business of a financial market supervisory authority and must therefore not necessarily be performed by such an authority.

## 4.2 Reform of the securities law

SNB heads working group

The Federal Department of Finance entrusted the Swiss National Bank with heading a working group to lay the groundwork for drafting a law governing indirect holding of securities and book-entry securities by financial intermediaries. Even though the immobilisation and dematerialisation of securities is fairly widely practised in Switzerland, these developments have not been regulated by law thus far. Given the importance of securities markets for the financial system, the resulting uncertainties are no longer acceptable. A draft law on the indirect holding of securities is due to be in place at the beginning of 2004. International law on the indirect holding of securities is to be revised simultaneously by proposing the ratification of the Hague Securities Convention.

## 4.3 Cooperation with the Federal Banking Commission

Regular meetings...

In 2003, the National Bank held two meetings with the Federal Banking Commission for a detailed discussion of the economic situation and current developments in the banking system. Both bodies also cooperated closely in the Basel Committee on Banking Supervision. Within the framework of the steering committee set up in 2001 to deal with questions relating to system stability, the National Bank and the Secretariat of the Federal Banking Commission continued to strengthen their cooperation on a technical level.

...and closer cooperation on a technical level

In the context of the procedure to obtain a banking licence for the central counterparty for securities transactions, SIS x-clear AG, the National Bank gave the Federal Banking Commission its feedback on the planned risk control mechanisms. Moreover, the National Bank expressed its view on several Federal Banking Commission circulars, in particular the ones relating to the treatment of credit derivatives in the context of capital adequacy requirements and to the reform of the audit process.

# 5 International cooperation

SNB membership in different institutions

On an international level, the National Bank cooperates in particular with the International Monetary Fund (IMF), the Group of Ten (G-10), the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). The National Bank also maintains close relations with many central banks all over the world. Moreover, it provides technical assistance and training.

Federal Decree on the renewal of the IMF's General Arrangements to Borrow

On 20 June 2003, the Federal Parliament approved a renewal of Switzerland's membership in the IMF's General Arrangements to Borrow (GAB) until the end of 2008. Switzerland had been associated with the GAB since 1964 and has been a member since 1984. The Swiss National Bank is the participating institution. In the event that the IMF finds itself short of funds, the GAB enable it to borrow supplementary resources in the amount of XDR 17 billion (special drawing rights) to prevent or resolve an extraordinary crisis threatening the international monetary system. The credit commitment of the National Bank amounts to XDR 1,020 million. The GAB are valid for five-year periods. The renewal of the Swiss participation will also in future be approved by the Federal Parliament and not – as proposed in the Federal Council's Message – by the Federal Council with the prior agreement of the National Bank.

## 5.1 Participation in the International Monetary Fund

Switzerland's reserve position

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. The IMF finances its activities with the member countries' quotas. The portion of the Swiss quota used by the IMF is equal to Switzerland's reserve position in the IMF, which is financed by the National Bank. For the National Bank, it represents a currency reserve and may be used by it at any time. At the end of 2003, Switzerland's reserve position amounted to XDR (special drawing rights) 1,383.4 million, compared with XDR 1,410.0 million at the end of 2002. (At the end of 2003, 1 XDR was equivalent to CHF 1.85. The figure is calculated on the basis of weighted exchanges rates for the US dollar, euro, yen and pound sterling.)

Poverty Reduction and Growth Facility (PRGF)

According to the Decree of the Federal Parliament of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility is used to grant long-term loans at reduced interest rates to the poorest developing countries. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after the loan has been paid out. The Confederation guarantees the National Bank the timely repayment of the PRGF loans, including interest payments. By March 2001, the IMF had utilised the total amount of Switzerland's loan commitment of XRD 151.7 million. After an initial repayment in 2002 came additional repayments totalling XRD 17.9 million in 2003.

**Interim PRGF**

As the PRGF loans were used up at the end of 2001 and since they cannot be operated as a self-financing facility before 2005, interim funding became necessary. The National Bank participated in this facility to the tune of XDR 250 million, but capped the amount at 6.25% of all bilateral contributions. Of this loan commitment, XDR 26.6 million were drawn in 2003, bringing the total to XDR 32.7 million by the end of 2003. At the end of 2003, the outstanding loan amount of PRGF and interim PRGF was XDR 163.5 million.

## 5.2 Participation in the Group of Ten

**Report on Collective Action Clauses**

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten and in various working groups. In 2003, the Group of Ten especially devoted itself to issues relating to the international financial system. A working group that dealt with collective action clauses in government bonds concluded its work. The use of collective action clauses shall permit that – in the event of default – debts incurred in the form of bonds can be restructured by means of a majority decision of the creditors. The Report of the working group, which was submitted to the G-10 finance ministers and governors in September 2002, was published in March 2003.

## 5.3 Cooperation with the Bank for International Settlements

**BIS bodies**

The central bank governors of the G-10 countries and the ECB meet regularly at the BIS for an exchange of information. In addition, the National Bank participates in the four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee (formerly the Committee of Experts on Gold and Foreign Exchange).

**Basel Committee on Banking Supervision**

The Basel Committee on Banking Supervision serves as a platform for regular cooperation in matters of banking supervision. The focus in 2003 was on completing the New Basel Capital Accord (Basel II) which is to replace the 1988 accord. In 2003, the Basel Committee also issued guidelines entitled "Risk management principles for electronic banking" and "Management and supervision of cross-border electronic banking activities". Furthermore, the publication "High-level principles for the cross-border implementation of the New Accord" is a report aimed at facilitating cooperation between the different supervisory authorities.

**Committee on Payment and Settlement Systems**

The role of the Committee on Payment and Settlement Systems (CPSS) is to monitor and coordinate developments in domestic and international payment, settlement and clearing systems. The CPSS has issued two reports. The first one deals with basic issues of central banks' policies in retail payments. The report demonstrates that different central banks take very different views on their respective roles. Only some of these differences can be attributed to the different stage of development of retail payment systems. The second report focuses on the role of central bank money in payment systems and investigates a number of practical issues that are relevant for central banks in this context.

**Committee on the Global Financial System**

The Committee on the Global Financial System (CGFS) follows and assesses international financial markets and draws up recommendations which support central banks in assuming their responsibility with regard to the stability of the financial system. In 2003, the CGFS published the reports of two working groups: "Incentive structures in institutional asset management and their implications for financial markets" and "Credit risk transfer". The latter describes the developments in the financial market in the area of credit risk derivatives and identifies some possible implications for the functioning of the financial system.

**Markets Committee**

The Markets Committee serves as a discussion forum for the G-10 central bank staff members responsible for financial market operations. The discussions dealt with the developments on the foreign exchange and other financial markets as well as the impact of individual events on the overall functioning of these markets.

## 5.4 Balance of payments support

**No new loans**

In the context of the Federal Decree on Swiss participation in international monetary measures, the National Bank participates in support operations for countries with balance of payments problems. The loans are financed by the National Bank, while the Confederation guarantees their repayment, including interest. No new loans were extended in 2003. There was one outstanding balance of payments loan at the end of the year – EUR 14.3 million to Bulgaria, expiring in 2007.

## 5.5 Technical assistance

**Technical assistance to countries of the Swiss constituency at the IMF...**

Technical assistance was once again concentrated on the Swiss constituency within the Bretton Woods institutions. The provision of technical assistance to the central bank of Azerbaijan intensified. The projects initiated in the previous year in the areas of implementation of monetary policy and of cash handling processes continued. A new project aimed at lending support in the area of IT security was initiated. Serbia's central bank continued to receive assistance with the investment of international reserves. In cooperation with the IMF, the institution which acts as a central bank in Kosovo was given advice on building security. The central bank of Kyrgyzstan continued to receive support in the areas of cash management and the development of the payment system. A new project devoted to training in the area of central bank management was initiated last year in Kyrgyzstan.

**...and other countries**

Outside of the Swiss constituency within the Bretton Woods institutions, the National Bank advised the central banks of Vietnam and Indonesia on issues regarding money and foreign exchange trading as well as internal auditing. Moreover, representatives of the National Bank participated in the meetings held by the Central Bank of West African States on the institutional reform of the West African Monetary Union.

## 5.6 Study Center Gerzensee

**Courses for foreign central banks**

The Study Center Gerzensee, a National Bank foundation, organised five courses for employees of foreign central banks in 2003. The courses offered training in the fields of monetary policy, financial markets and banking regulation. They were attended by a total of 125 participants from 98 countries.

**International scientific conferences**

In addition, the Study Center Gerzensee hosted a scientific conference on international capital markets and two summer symposia on financial markets and economic theory. They were attended by internationally renowned researchers.

**Doctoral programmes**

The Study Center Gerzensee organised doctoral programmes for students of Swiss universities. These programmes featured lectures by leading academics in the main fields of economic science. Moreover, the Study Center organised a Finance Workshop lasting several days.

# 6 Stability and oversight of the financial system

**Stability of the financial market as a condition for successful monetary policy**

Confidence in the stability of the financial system is essential for a balanced economic development in that it helps consumers, savers and investors to make long-term decisions. A stable financial system, however, is also a prerequisite for properly functioning financial markets and is thus one of the necessary conditions for a successful implementation of monetary policy. The National Bank, therefore, makes every effort to identify any danger to the stability of the system early on. While the Federal Banking Commission supervises the individual institutions, the National Bank monitors the development of the financial system as a whole. In particular, it attempts to identify areas of tension or imbalances that could jeopardise the stability of the system.

**Annual stability report**

In 2003, the National Bank published for the first time its assessment of the current situation of the financial system as well as potential trends in the form of a stability report (see the SNB's Quarterly Bulletin, 2/2003, pp. 60–85). In its report, the National Bank makes the distinction between market factors determining banking stability (macroeconomic developments and stock prices), bank-specific stability indicators (balance sheet information on capital and on liquid assets, etc.) and the development of the financial market infrastructure.

**Resilient banks...**

The report reveals that – in the face of the economic downturn and the slump on the stock markets – the Swiss banking sector proved to be resilient. Notably provisioning requirements in the lending business remained modest, since the volume of bank loans had only seen a small increase during the stock market's boom years. Available capital, which is crucial for the banking sector's resilience, is at a satisfactory level both by international and historical standards. No major imbalances which might trigger a crisis were identified in mid-2003. Consequently, the National Bank considered the Swiss banking system to be stable. Judging from the development of stock prices and bond yields of banks, this view was shared by the markets. Admittedly, the worst-case scenario discernible in summer 2003 – a further economic downturn and a persistently unfavourable situation on the financial markets – failed to materialise. For banks, but also for other financial market participants, such as insurance companies and pension funds, it was a positive year overall.

**...and a sound infrastructure**

The financial market infrastructure (clearing and settlement of payments [SIC] and transactions in securities and other financial instruments [SECOM]) was also in good shape in 2003. Owing to the Continuous Linked Settlement (CLS) system, which had already been in operation since the autumn of 2002, and the central counterparty SIS x-clear, introduced in May 2003, the settlement risks of securities and foreign exchange transactions were further reduced.

**Cooperation in Basel II**

On an international level the National Bank, as a member of the Basel Committee on Banking Supervision, continued to participate in the revision of the Basel Capital Adequacy Accord (Basel II) together with the Federal Banking Commission. This revision should remedy the major shortcomings of the Capital Adequacy Accord in effect since 1988, notably the insufficient consideration of risks in the calculation of required capital. The draft of the New Accord is based on three elements or "pillars": (1) minimal capital adequacy requirements which in some cases permit banks to apply an internal ratings-based approach, (2) monitoring the banks' capital adequacy strategies by the national supervisory authorities and (3) the effective use of market discipline.

**Revised draft**

In April 2003, the Basel Committee published a revised draft of the New Accord. Based on the feedback received, the Committee decided to complete the new Capital Adequacy Accord – with a few changes – by mid-2004 so that the individual countries can implement it by December 2006.

**Positive assessment**

The National Bank supports the direction in which the New Accord aims. An adequate cushion of capital commensurate with the risks strengthens the stability of the banking system. It protects banks from solvency problems and thus also from confidence crises that may lead to liquidity problems. Furthermore, only well capitalised banks can effectively fulfil their macroeconomic task of granting credit, not least in difficult economic times.

# 7 Statistics

## 7.1 Basis

**Tasks**

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it needs for fulfilling its statutory mandate. The data are used for analyses concerning monetary policy, for the survey of economic developments and for economic forecasts, and for analysing developments in the financial markets. The National Bank compiles statistics on the banks' balance sheets and on other important aspects of banking business, notably credit business and securities held in custody on behalf of non-banks. The National Bank requests information on the use of credit and debit cards from the major card companies. Furthermore, it gathers information on the money and capital markets, particularly on short and long-term interest rates and the issuing volume. It also draws up Switzerland's balance of payments and statement of the international investment position. All of these statistics are compiled by agreement with the reporting institutions and associations and conform as closely as possible to international standards.

**Preparatory work for financial accounts**

In collaboration with the Swiss Federal Statistical Office, the National Bank continued with the preparatory work for the production of a set of financial accounts for Switzerland. These financial accounts will show the flow of funds between different sectors of the economy and offer valuable information for monetary policy as well as closing a major gap in the system of national accounts.

## 7.2 Statistical publications

**Printed publications**

The National Bank publishes the results of its statistical surveys. Information is made available primarily in the Statistical Monthly Bulletin, in the Monthly Bulletin on Banking Statistics and in the statistical yearbook of the Swiss banks, "Die Banken in der Schweiz". These publications are supplemented by reports on Switzerland's balance of payments, on the international investment position and on direct investment.

**Internet**

The National Bank offers a wide range of data on the economy in the form of time series which can be accessed on the Internet free of charge. Users can download these time series on their PCs and process the data. The growing importance of statistical information activity resulted in an increasing number of time series administered. At the end of 2003, the National Bank maintained approximately 1.4 million time series.

**Statistics on the international investment position and on foreign debt**

Since 2003 – in addition to the yearly data on Switzerland's international investment position – the National Bank has been publishing quarterly estimates on this position. It has also started to compile statistics on Switzerland's foreign debt. These statistics reflect a detailed cross-section of the liabilities side of Switzerland's international investment position and as such conform to IMF requirements.

**Statistics on corporate lending according to company size**

The National Bank complemented its present statistics on the banks' credit business with information on lending broken down by the size of corporate customers as measured by the number of employees. The figures are published in the Internet version of the Monthly Bulletin on Banking Statistics.

## 7.3 Banking statistics committee

**Adoption of lending rate statistics**

The National Bank is advised on the content of its surveys by the banking statistics committee. The committee comprises representatives of banks, the Swiss Bankers' Association and the Swiss Federal Banking Commission. In 2003, the banking statistics committee adopted a survey on the banks' conditions in corporate customer lending (lending rate statistics). This survey allows the National Bank to gain more detailed insight into the transmission mechanism of monetary policy, and it will provide detailed information on corporate lending rates, which are key for economic development. The survey will be launched as a pilot project in 2004.

## 7.4 Balance of payments: group of experts

**Drawing up of the balance of payments**

A group of experts under the direction of the National Bank participates in the drawing up of the balance of payments. The group of experts comprises representatives from banking, industry, the insurance sector, various federal agencies and the Swiss Institute for Business Cycle Research at the Swiss Federal Institute of Technology.

## 7.5 Collaboration with domestic and foreign agencies

Knowledge transfer

The National Bank gathers data for banking supervision purposes on behalf of the Swiss Federal Banking Commission. It fosters a close working relationship with the Swiss Federal Statistical Office, the Bank for International Settlements (BIS), the OECD, the EU statistical office Eurostat and the IMF. This cooperation is aimed at harmonising statistical survey methods and analyses.