

P.O. Box, CH-8022 Zurich
Telephone +41 44 631 31 11
Fax +41 44 631 39 10

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SNB to expand its list of collateral eligible at the central bank

As Switzerland's central bank, the Swiss National Bank (SNB) provides the Swiss franc money market with liquidity, thereby influencing the interest rate level. To this end, it enters into credit transactions with banks, provided the loans are collateralised by securities (repo transactions). The SNB determines which securities are eligible as collateral.

The Governing Board of the SNB has redefined the criteria for collateral eligible for SNB repos. In so doing, the list of these securities can be expanded considerably. The inclusion of additional securities by issuers domiciled in a member state of the European Union (EU) or the European Economic Area (EEA) is the main feature of the new criteria. In future, the selection of securities eligible for SNB repos will be primarily based on the credit ratings of recognised rating agencies. Individual securities will be subject to stringent requirements with regard to credit rating and liquidity.

Currently, securities to the value of CHF 6,200 billion are eligible for repos at the SNB. Expanding the list of eligible collateral will result in a volume increase of roughly 50%. The eligible securities mainly comprise government bonds and debt certificates issued by foreign financial institutions denominated in Swiss francs, euros and pounds sterling.

A comprehensive list of collateral eligible for SNB repos is paramount in securing the liquidity of the internationally oriented Swiss banking system. Banks with sufficient securities that qualify as eligible at the central bank may also obtain liquidity, even in difficult conditions, since these securities can be transformed into money at central banks or in the interbank market through repo transactions.

The change will enter into effect on 1 October 2007 and become operational in the fourth quarter of 2007. The relevant criteria and provisions on the eligibility of securities at the SNB are described in an instruction sheet (www.snb.ch, *Financial markets, Monetary policy operations, Repos*).