Instruction sheet governing negative interest on sight deposit account balances

1. General

Pursuant to its Terms of Business, the Swiss National Bank (SNB) charges negative interest (cf. section 3 below) on sight deposit account balances (cf. section 2), once the sight deposit account balance exceeds a certain exemption threshold (cf. section 4).

2. Scope of application

Negative interest is charged on sight deposit account balances denominated in Swiss francs. The central Federal Administration and the compensation funds for old age and survivors’ insurance, disability insurance and the fund for loss of earned income (compenswiss) are currently exempted.

3. Negative interest

The negative interest rate currently corresponds to the SNB policy rate. Changes in the rate will be announced by the SNB. The applicable interest rate on sight deposits is available at www.snb.ch, Statistics, Reports and press releases, Interest rates and foreign exchange rates (current).

Negative interest is calculated on a daily basis according to the Actual/360 convention customary in the money market. It is debited at the end of each month for the interest period of the previous month (cf. section 5). Unless otherwise specified, a change in the negative interest rate will apply with immediate effect, and the affected sight deposit account balances will be subject to the new interest rate on the day of the announcement.
4. Exemption threshold

Negative interest is charged only on the portion of the sight deposit account balance which exceeds a certain threshold (exemption threshold).

The exemption threshold applies to each individual sight deposit account holder and shall be at least CHF 10 million.

Should a sight deposit account holder, in exceptional circumstances, hold more than one sight deposit account at the SNB, the threshold only applies once to the aggregate balance of all relevant accounts.

There are two methods:

**Method 1: Minimum reserve-based\(^1\) threshold**

For sight deposit account holders subject to minimum reserve requirements (domestic banks\(^2\)): The exemption threshold is calculated as a basis component minus a cash holdings component. The basis component corresponds to the moving average of the minimum reserve requirements over the preceding 36 reference periods (RPs), multiplied by the applicable threshold factor. The last RP, i.e. RP 36, is considered to start on the 20th calendar day three months before the beginning of the respective interest period.\(^3\) The cash holdings component corresponds to the cash holdings reported in this last RP.

The applicable threshold factor is available at www.snb.ch, Statistics, Reports and press releases, Interest rates and foreign exchange rates (current). Changes in the threshold factor will be announced by the SNB. Unless otherwise specified, a change in the threshold factor will apply as of the beginning of the subsequent interest period.

The threshold, comprising a basis and a cash holdings component according to method 1, is therefore calculated as follows:

\[
\text{Moving average of minimum reserve requirements over the last 36 RPs}
\text{multiplied by a threshold factor (basis component)}
\]

\[
- \text{Cash holdings in the last RP (cash holdings component)}
\]

\[
= \text{Exemption threshold}
\]

Furthermore, under method 1, the threshold shall not be less than the basic minimum reserve requirement of the last RP.

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\(^1\) Minimum reserves as defined by the National Bank Ordinance (arts. 12–17 NBO).

\(^2\) Banks as defined by the Federal Act on Banks and Savings Banks.

\(^3\) For example, the last RP for the November interest period is 20 August–19 September.
Method 2: Fixed threshold

For all other sight deposit account holders not mentioned under method 1, the SNB sets a fixed threshold.

5. Calculation, debit and notification

Negative interest is calculated on a daily basis on the portion of the sight deposit account balance which exceeds the exemption threshold at the end of each calendar day. This applies analogously for the aggregate balance of an account holder with several sight deposit accounts.

The negative interest charge for the interest period of the previous month is debited from the sight deposit account on the last value date of each month (reference date). If the sight deposit account holder has more than one sight deposit account, the SNB decides which of those accounts is to be debited (main account). The SNB is authorised to debit the account without prior notice.

The sight deposit account holder must ensure that the main account has sufficient cover on the reference date for the debit of the negative interest.

Debiting the negative interest triggers a sight deposit account transfer by the SNB for Swiss Interbank Clearing (SIC) system participants.

On the reference date, the sight deposit account holder is notified that the negative interest has been charged by the following: account statement via SWIFT (MT950) or physical statement for the main account plus a separate debit notice via SWIFT (MT900), or physical notice. In addition, the sight deposit account holder will receive a physical interest calculation statement detailing the basis for calculation of the negative interest.

6. New incorporations, changes to legal structures and transformations

In the case of new incorporations, changes to legal structures and transformations (mergers, demergers or transfers of assets), for sight deposit account holders whose threshold is calculated according to method 1, the principles set out below shall apply when determining the minimum reserve positions (minimum reserve requirements and cash holdings) for the exemption threshold calculation. These positions are used to calculate the threshold for all interest periods which follow a new incorporation, change to legal structure or transformation and are relevant for calculating the exemption threshold (cf. section 4).

New incorporations

For the RP preceding the incorporation, the values of the positions of the first minimum reserve report following incorporation that are relevant for the calculation of the threshold are applied retroactively to the RP preceding the incorporation.
**Mergers**

For the RP preceding the merger, the values of the positions of the minimum reserve report of each bank involved that are relevant for the calculation of the threshold are aggregated.

**Demergers**

For the RP preceding the demerger, the values of the positions of the minimum reserve report of the banks involved that are relevant for the calculation of the threshold are divided proportionately. The proportionate allocation for the basis component is made using the ratio of the first minimum reserve requirement values reported by each bank involved following the demerger. For the cash holdings component, the corresponding ratio of the cash holdings is calculated.

**Transfers of assets**

Transfers of assets as per the Merger Act or Code of Obligations which result in a change in the minimum reserve requirements may be taken into account by the SNB in calculating the basis component. In all cases, this requires a joint written application from the banks involved. In addition, any adjustment must always be made for both banks.