Circular letter to banks


Dear Sir / Madam

For the first time, the Swiss National Bank is publishing guidelines on the use of its monetary policy instruments. By doing so, it is adding to the knowledge about the ways in which it implements its monetary policy through the financial markets. The "Guidelines of the Swiss National Bank on Monetary Policy Instruments" are directed both at interested members of the general public and at the Bank’s business partners. These Guidelines, together with the associated instruction sheets, are available in three languages on the National Bank’s website (www.snb.ch, The SNB, Legal basis).

The Guidelines, which have been prepared as a corollary to the monetary policy concept already defined by the National Bank, describe the instruments and procedures used for implementing this policy. They set out in more concrete form the transactions (as described in art. 9, para. 1 of the new National Bank Act) that are at the Bank's disposal for performing the monetary tasks assigned to it. In particular, they specify the terms on which the National Bank concludes transactions and the procedures that are to be observed in such cases. They also define the types of collateral that are admissible for use in monetary policy operations involving the National Bank. From now on, it will only be possible as a rule to make use of the regular facilities by way of repo transactions with the National Bank.

In connection with the release of these Guidelines, some of the National Bank’s money market operations are being redefined and new terminology is being introduced. For the first time, the Bank now explicitly states the conditions under which it is willing, under extraordinary circumstances, to supply liquidity in its capacity as lender of last resort.
The issuing of the new Guidelines on monetary policy instruments also affects the publication of data relevant to monetary policy: instead of publishing the "Key Figures from the Central Bank Balance Sheet", the National Bank will be publishing figures on the first working day of each week on those balance sheet items in which monetary policy measures are reflected, plus the daily results of monetary policy transactions effected in the preceding week and reference interest rates.

To assist the commercial banks through short-term liquidity shortages, the National Bank will now make a Liquidity-Shortage Financing Facility available in place of the traditional Lombard loan. In our letter dated 25 April 2003 we announced that this facility can be used by way of "special-rate repos". The procedure for granting a limit and the terms and operating details on the use of this facility are set out in the instruction sheets on the liquidity-shortage financing facility and on the Custody Cover Account "SNB". In May and June 2004, a number of banks will adopt the new procedure on a pilot basis. As of July 2004, the other banks will also gradually be able to change over to the new system. It is intended to replace the Lombard loan entirely by the special-rate repo transaction by the end of 2005. During the transition phase, the Lombard rate is identical to the special rate.

The special rate is two percentage points above the call money rate. The reference rate is the Repo Overnight Index (SNB) for the previous bank working day. This Index is the interest rate average weighted according to trading volumes of overnight GC transactions concluded between commercial banks via the electronic trading platform Eurex Repo.

We kindly request that you introduce any necessary measures in preparation for the change in system. Please do not hesitate to contact us should you have any questions.

Yours sincerely,

Swiss National Bank

Thomas J. Jordan
Karl Hug

Enclosures
- Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments
- Instruction Sheet on Main Financing and Fine-Tuning Operations
- Instruction Sheet on the Intraday Facility
- Instruction Sheet on the Liquidity-Shortage Financing Facility (Special-Rate Repo Transactions)
- Instruction Sheet on Collateral Eligible for SNB Repos
- Instruction Sheet on the Custody Cover Account "SNB"