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Zurich, 7 July 2014

Money Market

Swiss National Bank aligns collateral policy with new liquidity provisions

Dear Sir, dear Madam

The Governing Board of the Swiss National Bank (SNB) has redefined the criteria for collateral eligible for SNB repos. With this redefinition, all collateral eligible for SNB repos also continues to fulfil the criteria for high-quality liquid assets (HQLA) as per the new liquidity provisions. These liquidity provisions and the SNB's new collateral policy will both come into effect on 1 January 2015. From then on, in all its repo transactions and as cover for the liquidity-shortage financing facility limit, the SNB will accept only collateral which fulfils the redefined requirements. This gives SNB counterparties the opportunity to make the necessary adjustments to their securities holdings before the end of the year.

The changes will increase the quality of collateral eligible for SNB repos. Collateral accepted by the SNB is recognised as a standard on the secured money market. Thus the liquidity of the repo market in Swiss francs will also be retained under the new liquidity provisions.

The key change in the redefinition of collateral eligible for SNB repos is that financial securities issued by financial institutions domiciled outside Switzerland or by domestic insurance companies will now be excluded. This means that, in addition to debt certificates issued by domestic banks, other financial securities will be excluded from the group of collateral eligible for SNB repos. An exception to this exclusion is covered debt certificates issued by foreign financial institutions and domestic mortgage bond institutions. Furthermore, the credit rating requirements for securities in Swiss francs are being brought into line with those for securities in foreign currencies, in other words, the minimum rating will be increased from A to AA-. These rating requirements are based on the ratings issued by Standard & Poor's, Moody's and Fitch and, for the first time – for securities issued by public-law institutions domiciled in Switzerland – on the credit rating awarded by the Swiss rating agency, Fedafin. As a result of these adjustments, the volume of collateral eligible for SNB repos will decline by CHF 400 billion to some CHF 9,500 billion. Thus potential volume will remain high.

The SNB will continue to conduct its monetary policy operations against the SNB GC Basket. From 1 January 2015, this basket will consist exclusively of assets which fulfil the HQLA criteria as defined in the new liquidity provisions. Apart from the securities with a lower AA-rating, this will bring the SNB GC Basket into line with the current HQGC Basket. The HQGC Basket has been used for repo transactions on the SIX Repo Ltd trading platform since 2 May 2014.

With the redefinition of collateral eligible for SNB repos as per 1 January 2015, the SNB will also adjust its current basket structure. All collateral in the SNB GC Basket (collective basket) will be allocated to additional baskets based on their characteristics, and in line with the HQLA criteria. The HQLA categorisation of collateral eligible for SNB repos is listed under www.snb.ch, *Financial markets, Monetary policy operations, Collateral eligible for SNB repos, Baskets*. The calculation of secured Swiss franc reference interest rates will still be based on market data relating to repo transactions against collateral eligible for SNB repos. The basis for calculating this Swiss franc interest rate curve is the call money rate (SARON).

The criteria and provisions governing the eligibility of securities for SNB repo transactions are set out in the 'Guidelines of the SNB on monetary policy instruments' and in the relevant instruction sheet (cf. www.snb.ch, *Financial markets, Monetary policy operations, Repos*).

Please do not hesitate to contact us should you have any questions.

Yours sincerely
Swiss National Bank

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