Guidelines of the Swiss National Bank on monetary policy instruments

of 25 March 2004 (as at 1 July 2021)

1. Purpose and applicability

The Swiss National Bank (SNB) pursues a monetary policy serving the interests of the country as a whole. In accordance with art. 5 para 2 (a) of the Federal Act of 3 October 2003 on the Swiss National Bank (National Bank Act, NBA), it has the task of providing the Swiss franc money market with liquidity. These guidelines outline the instruments and procedures used by the SNB to implement its monetary policy. They set out in detail the transactions described in art. 9 of the NBA that are at the SNB's disposal for performing the monetary policy tasks assigned to it. They do not directly constitute any rights and obligations of the SNB with regard to its counterparties or any rights and obligations of counterparties with regard to the SNB. The SNB may deviate from the procedures and terms set out in these guidelines at any time without prior notification.

The guidelines are based on the SNB's current monetary policy strategy, which specifies that monetary policy is implemented by influencing interest rates on the money market. For this purpose, the SNB sets the SNB policy rate. Its aim is to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. Currently, SARON is the most representative of the secured short-term interest rates.

The present guidelines are supplemented by instruction sheets, which are legally binding. They are published by the SNB and set out the terms and procedures for the monetary policy operations outlined below. In addition to the SNB's 'Terms of business', the 'Swiss master agreement for repo transactions' or any other specific contractual agreements form the contractual basis for monetary policy repo transactions. The issuance of SNB debt certificates (SNB Bills) is governed exclusively by the issue conditions published by the SNB. Internal regulations and the powers of signature determine the authorisations and powers of SNB executive bodies and employees in monetary policy operations.

2. Monetary policy instruments

For monetary policy instruments, a distinction is made between open market operations and standing facilities. In the case of open market operations, the SNB takes the initiative in the transaction, while for the standing facilities it merely specifies the conditions at which counterparties can obtain liquidity. Open market operations comprise repo transactions, issues of SNB Bills, and their purchase and sale in the secondary market. Standing facilities include the liquidity-shortage financing facility and the intraday facility. If necessary, the SNB may also use additional monetary policy instruments such as foreign exchange transactions.

2.1 Open market operations

By means of its open market operations, the SNB can provide liquidity to, and absorb liquidity from, the financial system. If the financial system is undersupplied with liquidity, the SNB provides liquidity through open market operations. If, however, the financial system is oversupplied with liquidity, the SNB absorbs liquidity via open market operations. Steering the secured short-term money market interest rates is primarily achieved by liquidity-providing or liquidity-absorbing open market operations. The SNB can influence the money market interest rates by means of the interest rates charged and the volume of these operations. By issuing SNB Bills, the SNB can absorb liquidity.

The SNB may conduct repo transactions in the form of auctions or bilaterally with individual counterparties. For repo transactions in the context of open market operations, the cash taker must cover the funds obtained by at least 100% of collateral eligible for SNB repos.

Repo auctions are conducted either by volume tender or by rate tender. Auctions are normally held by volume tender on an electronic trading platform at an interest rate set by the SNB (fixed or variable). The SNB announces the conditions for carrying out repo transactions, generally via the electronic market information services and the trading platform. The term of repo transactions may vary from one day (overnight) to several months.

SNB Bills are issued publicly by auction or through private placement. Auctions are conducted either by volume tender or by rate tender on an electronic trading platform. The term may vary from one day (overnight) to several months. The SNB can repurchase SNB Bills during their term and sell them again. Interest on SNB Bills is paid on a discount basis. Further details on SNB Bills may be found in the SNB’s issue conditions, as well as in the conditions for individual issues. SNB Bills do not represent legal tender and cannot therefore be used by banks to satisfy minimum reserve requirements.

The SNB can also influence price formation in the money market at any time, by placing or accepting offers for repo transactions in the electronic market. In this way, it can help to stabilise short-term money market rates.

2.2 Standing facilities

The SNB provides a liquidity-shortage financing facility to bridge unexpected, short-term liquidity bottlenecks. These mainly occur if expected payments are not received and the required funding cannot be obtained quickly enough on the interbank market. The facility may also be necessary at the end of a reporting period to meet the minimum reserve requirements.

The liquidity-shortage financing facility is made available through special-rate repo transactions and can be used until the next bank working day (overnight). The conditions for concluding special-rate repo transactions are the granting of a limit by the SNB and the provision of collateral eligible for SNB repos. Such cover must amount to at least 110% of the limit at all times. The maximum amount of liquidity that a counterparty can obtain is determined by the limit, which is normally set for a year, but may be cancelled by the SNB, subject to a ten-day period of notice. The securities may also be used as collateral during the day for obtaining intraday liquidity.

The counterparty opens a separate safekeeping account in its own name with SIX SIS Ltd (SIS). This is known as a Custody Cover Account SNB. The counterparty deposits collateral eligible for SNB repos, which must be pledged in favour of the SNB. Provided the cover regulations are observed, these securities can be managed by the counterparty. SIS is responsible for monitoring compliance with the cover regulations. The SNB has the right to inspect the individual counterparties' custody cover accounts at SIS at any time.

The SNB offers a liquidity facility in Swiss francs for systemically important financial market infrastructures domiciled in Switzerland. Liquidity can be drawn up to a specified limit and must be covered by collateral eligible for SNB repos amounting to at least 110%. This liquidity facility is a form of liquidity-shortage financing facility specially adapted for financial market infrastructures.

The special rate is calculated as the SNB policy rate plus a surcharge, and is at least 0%. The surcharge is intended to prevent counterparties from using the facility as a permanent source of refinancing.

The SNB also provides its counterparties with interest-free liquidity during the day through repo transactions carried out within the context of its intraday facility. In this way it facilitates the settlement of payment transactions via the Swiss Interbank Clearing system (SIC) and foreign exchange transactions in the Continuous Linked Settlement system (CLS). Collateral eligible for SNB repos must cover at least 110% of the intraday liquidity provided. The liquidity must be repaid by the end of the same bank working day at the latest. Consequently, these funds are not included when calculating liquidity requirements under banking law and compliance with SNB minimum reserve requirements.

2.3 Other monetary policy instruments

In addition to the monetary policy instruments mentioned above, the SNB may also use additional monetary policy instruments such as those listed here:

- The SNB is authorised to accept interest-bearing and non-interest-bearing cash deposits (cf. art. 9 para 1 (a) NBA), enabling it to absorb excess liquidity by implementing a deposit facility. The conditions are determined by the SNB.
- The SNB may purchase or sell Swiss franc-denominated securities (cf. art. 9 para. 1 (c) NBA) in order to influence the conditions on the capital market.

- The SNB may purchase or sell foreign currency receivables spot or forward (cf. art. 9 para. 1 (c) NBA). Foreign exchange transactions may not only be used in market interventions on the foreign exchange markets to influence the rate of the Swiss franc against foreign currencies, but also to steer liquidity in the money market.
- The SNB may enter into foreign exchange swaps (cf. art. 9 para. 1 (c) NBA). These may be used to steer liquidity.
- The SNB may create, purchase or sell derivatives on receivables, securities, precious metals or pairs of currencies (cf. art. 9 para. 1 (c), (d) NBA). Derivatives on foreign currencies may also be used in connection with interventions in foreign exchange markets.
- The SNB may offer facilities under which liquidity can be drawn as a covered loan against collateral it deems eligible (cf. art. 9 para. 1 (e) NBA).

3. Collateral eligible for SNB repos

In accordance with art. 9 para.1 (e) NBA, the SNB may enter into credit transactions with banks and other financial market participants, on condition that sufficient collateral is provided for the loans.

The SNB may accept securities (debt certificates) denominated in Swiss francs and foreign currency as collateral, provided the following criteria are met:

- The securities are issued by central banks, public sector entities, international or supranational institutions, multilateral development banks and private sector entities. Securities issued by financial institutions are, as a rule, not eligible as collateral for SNB repos. However, the following are eligible: covered bonds issued by financial institutions, provided the issuer is not a domestic bank or its foreign subsidiary; and securities issued by the mortgage bond bank of the Swiss mortgage institutions and the mortgage bond institute of the Swiss cantonal banks (Pfandbriefbank schweizerischer Hypothekarinstitute AG and Pfandbriefzentrale der schweizerischen Kantonalbanken AG; hereafter 'the Swiss Pfandbrief institutions').
- The issuer is domiciled in Switzerland, in a member state of the European Union (EU) or European Economic Area (EEA), or in the United Kingdom (UK). Securities denominated in Swiss francs, securities issued by international or supranational organisations and securities issued by multilateral development banks may be exempted from this domicile requirement.
- The securities are denominated in Swiss francs, euros, US dollars, pounds sterling, Danish kroner, Swedish kronor or Norwegian kroner.
- Both the issuer's country of domicile and the securities have at least the equivalent of an AA–/Aa3 rating. Country and securities ratings are based on credit ratings from a rating agency recognised by the Swiss Financial Market Supervisory Authority (FINMA). For securities issued by central

banks, public sector entities, international or supranational organisations, multilateral development banks and issuers with a guarantee from the Confederation, as well as for securities in Swiss francs from domestic issuers, different rating requirements may apply.

- The minimum volume of the securities is CHF 100 million or the countervalue thereof. Higher minimum volumes may apply to securities in foreign currency. The minimum volume is determined on the basis of the outstanding volume.
- As a rule, the securities are traded on a recognised stock exchange or a representative market, where price data are published on a regular basis, in Switzerland, in an EU or EEA member state, or in the UK.
- The securities can be delivered through SIS. The intermediate and ultimate securities depository is in Switzerland, in an EU or EEA member state, or in the UK.

These conditions are set out in detail in the SNB's 'Instruction sheet on collateral eligible for SNB repos'. Only securities which are included in the list of collateral eligible for SNB repos may be pledged as collateral for repo transactions. The SNB determines which securities are eligible for SNB repos. It may reject securities or exclude securities previously included in the list, without providing any justification.

The SNB does not accept counterparties' own securities or those issued by persons or companies which, directly or indirectly, hold at least 20% of the capital or voting rights in a counterparty or, conversely, in which the counterparty holds such rights. This 20% rule does not apply to participations in the Swiss Pfandbrief institutions. Failure to comply with this rule may cause the SNB to temporarily exclude the counterparty from all of its monetary policy operations.

SNB Bills are included in the list of collateral eligible for SNB repos irrespective of the criteria set out in these guidelines. They are eligible for repo transactions with the SNB and may be delivered either by counterparties or by the SNB.

4. Eligible counterparties

As a general rule, all domestic banks with sight deposits at the SNB are admitted as counterparties for SNB monetary policy operations.

Other domestic participants in the financial market, as well as banks and other financial market participants that are domiciled abroad, may be admitted as counterparties for monetary policy operations, where this serves monetary policy interests, where the participants or banks contribute to the liquidity of the secured Swiss franc money market, and where the requirements for opening a sight deposit account are met.

The SNB's transactions are normally concluded on the SIX Repo Ltd electronic trading platform and settled through SIS and SIC. In addition to holding a sight deposit with the SNB, the counterparty must therefore meet the cumulative requirements of all three partners of the SNB in order to be able to undertake monetary policy-related repo transactions with the SNB. Counterparties must have a direct connection to the SIC system.

5. Settlement of repo transactions and SNB Bill issues

SIS settles repo transactions on a 'delivery versus payment' basis. The securities are transferred to the SIS account of the cash provider. At the same time, the funds are credited to the cash taker's SIC account. To limit counterparty risk, SIS revalues the securities daily at market prices and compares the valuation with the funding side. If there is a discrepancy between the funding and securities sides between two counterparties, this must be covered by securities or cash (margin call). The SNB may set a unilateral tolerance limit for each counterparty. When a repo transaction matures, reverse settlement is triggered by SIS. The settlement procedure factors in the repo rate.

In the case of SNB Bills, payment is also effected on a 'delivery versus payment' basis via the SIC account of the purchaser. The SNB Bills are credited to the purchaser's SIS account. Redemption is effected by SIS to the account holder of the corresponding SIS account by crediting their SIC account.

6. Emergency liquidity assistance

In accordance with art. 9 para.1 (e) NBA, the SNB also acts as lender of last resort. In this function, it can provide emergency liquidity assistance for one or more domestic banks if they are no longer able to refinance their operations on the market. This emergency liquidity facility depends on the following conditions being met:

- The bank or group of banks seeking credit must be of importance for the stability of the financial system.
- The bank seeking credit must be solvent.
- The liquidity assistance must be fully covered by sufficient collateral at all times. The SNB determines what collateral is sufficient.

To assess the solvency of a bank or group of banks, the SNB obtains an opinion from FINMA.

7. Publication of important monetary policy data

Under art. 7 para. 4 NBA, the SNB is required to publish important monetary policy data on a weekly basis. As a guide for market participants, the SNB makes information available on interest rates, sight deposit balances and minimum reserves.

These data are announced on the first bank working day in a calendar week via the usual channels.

8. Amendments to these guidelines

Any amendments to these guidelines will be determined by the Governing Board.

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29.11.2012	Governing Board	01.01.2013	1, 2, 3, 5, 6, 7, 8
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19.05.2020	Governing Board	01.07.2020	2
03.06.2021	Governing Board	01.07.2021	2