

# Investment Policy Guidelines of the Swiss National Bank (SNB)

of 27 May 2004 (as at 1 April 2015)

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## **1. Purpose and applicability**

These guidelines define the scope of the Swiss National Bank's (SNB) investment activity and make this scope transparent to the public. They detail the investments described in art. 9 para. 1 of the Federal Act of 3 October 2003 on the Swiss National Bank (Swiss National Bank Act, NBA) which the SNB may enter into in order to perform its investment policy tasks. In particular, the guidelines lay down the investment policy principles, the eligible asset categories and instruments, and the investment and risk control process. 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 these guidelines without prior notification at any time, if necessary.

These guidelines apply to all assets managed by the SNB, including currency reserves (foreign currency investments and gold) and Swiss franc assets. The SNB's Terms of Business and any specific contractual agreements that may have been entered into are binding on the SNB's counterparties. The powers of the SNB's statutory bodies and those of employees in connection with investment activity are governed by internal regulations and signing authorities.

## **2. Investment policy principles**

The SNB manages its assets based on the mandate laid down in art. 5 para. 2 NBA. Investment decisions are subject to the primacy of monetary policy and are implemented in accordance with the principles of professional - asset management.

The SNB holds currency reserves to ensure that it has room for manoeuvre in its monetary policy at all times. Its investment policy is guided by the principles of liquidity, security and return. The weighting of individual investment criteria is derived from the functions of the currency reserves. A high degree of liquidity is required to ensure room for manoeuvre in the implementation of monetary policy. The requirement for highly liquid investments is met by large holdings of government paper in US dollars and euros. The criterion of security is taken into account by structuring investments in such a way that they are expected to at least retain their real value over the long term. To improve the

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long-term risk/return profile, government bonds in foreign currency investments are supplemented by other asset categories, including equities. The investment and risk control process is structured so as to avoid conflicts of interest between monetary policy and investment policy. This is achieved by separating responsibility for monetary policy and investment policy operations as far as possible. In particular, measures are taken to ensure that no inside knowledge acquired within the SNB can influence investment activity and that no unintentional signal effects are created. To this end, investments in Swiss shares or in bonds issued by Swiss companies are generally avoided.

### **3. Asset categories**

#### **3.1 Fixed income investments**

##### **3.1.1 Tradable investments**

Bonds across all maturities that can be traded via a liquid secondary market and feature in the leading bond indices are eligible.

Eligible issuers must be borrowers with an average rating of 'investment grade' from the leading rating agencies.

Foreign currency bonds are managed actively, Swiss franc bonds passively.

##### **3.1.2 Non-tradable investments**

Time deposits (unsecured deposits), reverse repos and repos are eligible.

#### **3.2 Equities**

Shares in listed companies from advanced and emerging economies that feature in the leading share indices are eligible.

The SNB does not pursue any strategic interests in its equity investments and as a general rule does not engage in any stock selection. Shares are managed passively by replicating a combination of different indices. Investments in shares of medium and large-cap banks and quasi-bank institutions are generally avoided in order to exclude possible conflicts of interest. The SNB also avoids shares in companies which produce internationally banned weapons, seriously violate fundamental human rights or systematically cause severe environmental damage.

#### **3.3 Gold**

Art. 99 para. 3 of the Federal Constitution obliges the SNB to hold part of its currency reserves in gold. It keeps the gold physically as bars and coins and the gold holdings are stored both in Switzerland and abroad.

#### **3.4 Derivatives**

Derivatives on all admissible underlying assets are eligible. These are: interest rate futures, interest rate swaps, equity index futures, foreign exchange

options and forward foreign exchange transactions as well as credit derivatives.

Derivatives are regarded as substitutes for the assets underlying the contracts. They are principally used in situations when the derivatives market is more liquid than the spot market or if doing so allows an investment position to be managed more efficiently and cost-effectively.

### **3.5 Currencies**

A large proportion of the SNB's investments is held in the world's most important and most liquid currencies. Other currencies are also included to ensure adequate diversification.

## **4. Responsibilities**

### **4.1 Admission of investments**

The Governing Board defines the universe of eligible investments as outlined in section 3.

### **4.2 Investment policy and strategy**

Investment policy and strategy are defined by the Governing Board. The first stage in this process involves setting out monetary policy restrictions and the principles governing risk policy as well as determining the fundamental structure of the investments; in a second stage, the SNB's actual investment strategy and scope for active management are established. Investment policy and strategy are typically reviewed annually and, where necessary, aligned with monetary requirements and market conditions.

Risk Management sets out the investment strategy in detail by putting together a strategic benchmark and investment guidelines.

### **4.3 Investment strategy implementation**

The internal Investment Committee is responsible for implementing the strategy. It may decide on tactical deviations from the strategic benchmark, provided these remain within pre-defined ranges.

Within the guidelines and limits set by the Investment Committee and Risk Management, internal and external portfolio managers position the individual portfolios. Most of the investments are managed by the internal Asset Management unit. External asset managers are used for benchmarking internal management and in order to gain more efficient access to specific asset categories.

Performance is measured against the strategic benchmark.

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## **4.4 Risk management**

Risk Management is responsible for risk identification, analysis, control and reporting. Risk Control ensures compliance with the specifications of the Governing Board and the investment guidelines.

Asset-related risks are systematically identified, assessed and monitored. Risk and return are measured according to standard methods and procedures. Risk Management reports directly to the Governing Board and the Bank Council's Risk Committee. The Risk Committee monitors risk management and governance issues associated with the investment process on behalf of the Bank Council.

## **5. Counterparties**

### **5.1 Counterparties for securities transactions**

Securities transactions are conducted with counterparties offering competitive pricing and high-quality settlement. The number of counterparties is kept small and is reviewed regularly.

### **5.2 Counterparties for non-tradable investments and derivatives**

Transactions involving time deposits, repos and derivatives are conducted with counterparties in possession of adequate credit ratings. Master agreements are concluded with counterparties for derivative and repo transactions. In the vast majority of transactions, exposure is hedged using collateralisation agreements. Derivatives transactions may also be cleared through central counterparties.

### **5.3 Custodians**

Securities are primarily held at international central depositories or at central banks, as well as at SIS, and settlement takes place on a 'delivery versus payment' basis.

## **6. Reporting on investment activity**

In its *Annual Report*, the SNB publishes the principles underlying its investment and risk policies along with a breakdown of assets at year-end and a summary of key events during the reporting period. Current information on the structure of – and return on – investments is published quarterly on the SNB's website, [www.snb.ch](http://www.snb.ch). These web pages contain a breakdown of investments by currency and investment category and details of bond durations and credit ratings.

## 7. Amendments to these guidelines

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

<b>Issued by</b>	Governing Board	<b>Issued on</b>	27 May 2004
<b>Entry into force</b>	27 May 2004	<b>Owner</b>	Risk Management unit
<b>Legal basis</b>	Art. 9 para. 1 NBA		
<b>Replaces</b>	–		
<b>Amended on</b>	<b>Amended by</b>	<b>Amendment valid from</b>	<b>Section(s)</b>
29.09.2005	Governing Board	29.09.2005	
05.10.2006	Governing Board	05.10.2006	
20.11.2008	Governing Board	20.11.2008	
04.09.2014	Governing Board	01.04.2015	1,2,3,4,5,6