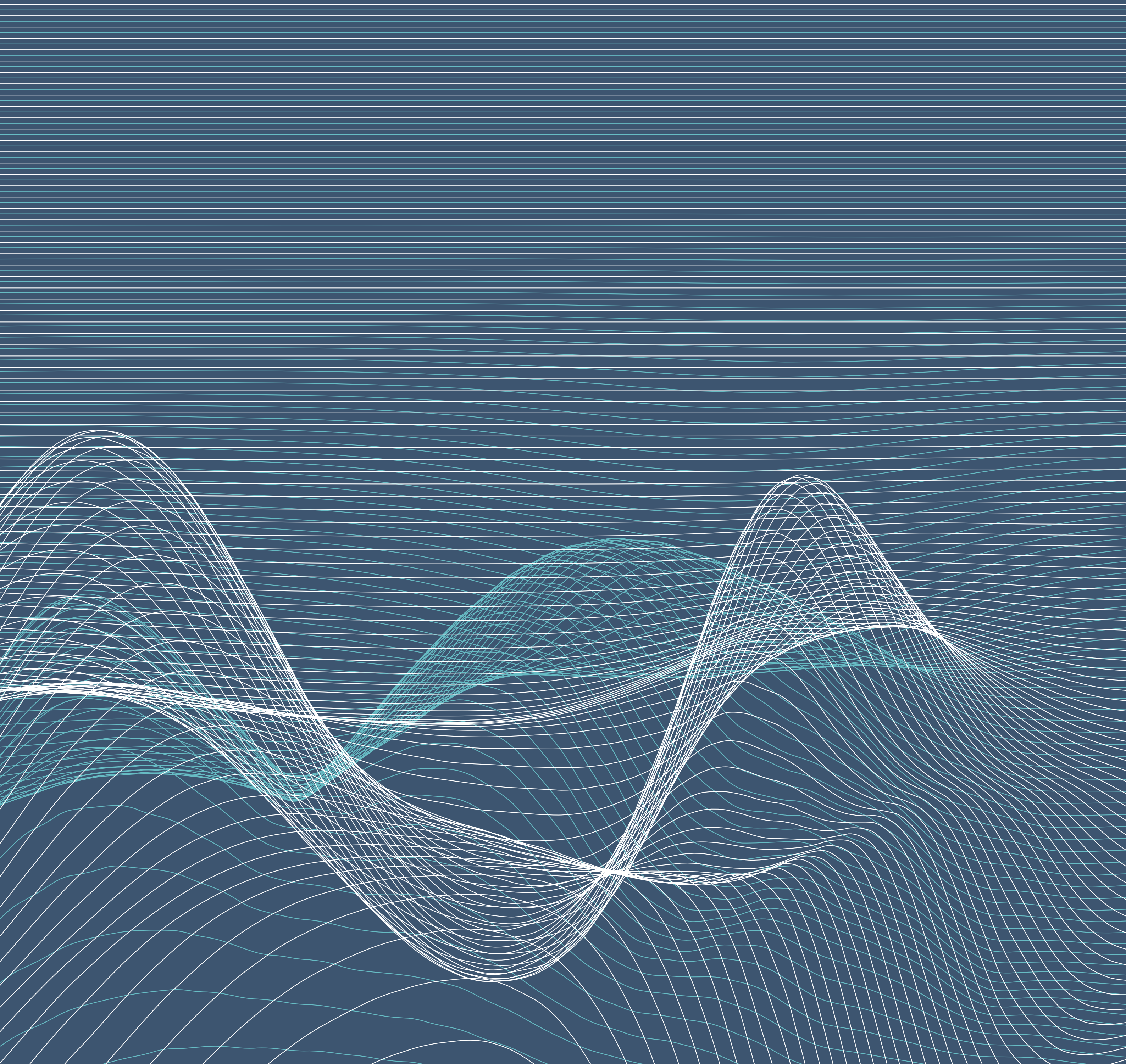

108th Annual Report
Swiss National Bank
2015

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

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Preface

Ladies and Gentlemen

Both the Swiss economy and the Swiss National Bank (SNB) faced considerable challenges in 2015. The global economy continued to recover, however worldwide economic growth did not strengthen in the way many had hoped. Moreover, the Swiss franc appreciated sharply following the discontinuation of the minimum exchange rate in mid-January. Against this backdrop, economic growth in Switzerland slowed and unemployment increased slightly until year-end. Thanks in part to the flexibility of its employers and workforce, Switzerland did not enter recession, however.

Switzerland's annual inflation rate, as measured by the Swiss consumer price index, was negative in 2015 and thus below the range which the SNB equates with price stability. This was principally due to Swiss franc appreciation and the substantial fall in oil prices. Internationally, too, inflation rates were low. The SNB cannot offset such temporary factors. A forward-looking monetary policy must concentrate on steering inflation back to within the range of price stability in the medium term.

From September 2011, monetary policy had been geared to enforcing the minimum exchange rate of CHF 1.20 per euro. Towards the end of 2014, market participants were preparing for a tightening of monetary policy in the US, while further easing was anticipated in the euro area. The euro lost ground against the US dollar and this, in turn, led the Swiss franc to weaken against the US dollar as well. By contrast, the franc strengthened against the euro and remained close to the minimum exchange rate.

In January 2015, the SNB had to intervene in the foreign exchange market on an increasingly large scale in order to enforce the minimum exchange rate against the euro. Given the growing divergence of monetary policy stances on both sides of the Atlantic, the Governing Board concluded, after intensive discussion, that the discontinuation of the minimum exchange rate was unavoidable. The SNB could only have enforced the rate through ongoing foreign currency purchases of rapidly increasing magnitude – in an environment where there was no prospect of long-term stabilisation. The risks associated with maintaining the minimum exchange rate would have compromised the SNB's ability to conduct monetary policy in the long term. Continuing to uphold the minimum exchange rate was thus no longer justifiable.

The SNB discontinued the minimum exchange rate on 15 January, stating that it would continue to take account of the exchange rate situation in formulating its monetary policy in future, and would, if necessary, remain active in the foreign exchange market. Concurrently with the discontinuation of the minimum exchange rate, the SNB announced that it was lowering the interest rate on sight deposits held by banks and other financial market participants at the SNB, to –0.75%. Both of these measures – the interest rate cut and the SNB's willingness to intervene in the foreign exchange market – are reducing the attractiveness of the Swiss franc and cushioning the effects of the discontinuation. Indeed, the Swiss franc, which initially appreciated sharply following the decision on 15 January, has since weakened again appreciably.

The minimum exchange rate was only ever intended to be an exceptional and temporary measure. It was introduced in September 2011 at a time of extreme uncertainty when the Swiss franc's safe-haven status had caused it to appreciate rapidly and sharply against virtually all currencies. In the almost three and a half years until its discontinuation in January 2015, the situation changed considerably. Investor confidence in the US dollar was restored, while the euro weakened against all major currencies. In contrast to 2011, the environment at the beginning of 2015 was no longer characterised by Swiss franc strength, but by euro weakness.

The appreciation of the Swiss franc left its mark on the SNB's 2015 annual financial statements, which closed with a loss of CHF 23.3 billion, compared to a profit of CHF 38.3 billion the previous year. This negative result was principally attributable to losses of CHF 19.9 billion on foreign currency positions and CHF 4.2 billion on gold holdings.

The allocation to the provisions for currency reserves amounts to CHF 1.4 billion. Taken together, the annual loss and allocation to provisions totalling CHF 24.6 billion are less than the distribution reserve, which amounts to CHF 27.5 billion. Thus, despite the annual loss, the resulting net profit will, according to the profit distribution agreement between the Federal Department of Finance and the SNB, allow a dividend payment to shareholders of CHF 15 per share as well as the ordinary profit distribution of CHF 1 billion to the Confederation and the cantons. The distribution reserve after appropriation of profit is therefore CHF 1.9 billion.

The first part of this *108th Annual Report* comprises the SNB's accountability report to the Federal Assembly, and provides information about how the SNB has fulfilled its mandate – in particular its conduct of monetary policy and contribution to the stability of the financial system.

The second part of the *Annual Report* comprises the financial report, which is submitted for approval, first to the Federal Council and then to the General Meeting of Shareholders. The financial report provides information on organisational and operational developments as well as the financial result of the SNB. It includes the business report and the annual financial statements of the SNB, which contain the balance sheet, income statement and profit distribution, changes in equity and notes.

Last year will go down in the annals as a particularly challenging period for the SNB and the Swiss economy. The SNB had to make difficult decisions with painful repercussions in the short term. However, we are convinced that we have acted in the long-term interests of our country and our economy. We would like to thank our employees for their ongoing commitment and valuable support in these endeavours.

Berne and Zurich, 4 March 2016

JEAN STUDER
President of the Bank Council

THOMAS J. JORDAN
Chairman of the Governing Board

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank (SNB) conducts the country's monetary policy as an independent central bank. It is obliged by Constitution and statute to act in accordance with the interests of the country as a whole. Its primary goal is to ensure price stability, while taking due account of economic developments. In so doing, it creates an appropriate environment for economic growth.

Price stability

Price stability is an important condition for growth and prosperity. Inflation and deflation, by contrast, impair economic activity. They hinder the role of prices in allocating labour and capital to their most efficient use, and result in a redistribution of income and wealth. The SNB equates price stability with a rise in consumer prices of less than 2% per annum. Deflation – i.e. a sustained decrease in the price level – also breaches the objective of price stability. A medium-term inflation forecast serves as the main indicator for monetary policy decisions.

Implementation of monetary policy

The SNB implements its monetary policy by steering liquidity on the money market and by setting interest rates on sight deposits, thereby influencing the general interest rate level. The three-month Swiss franc Libor serves as its reference interest rate. The SNB intervenes in the foreign exchange market as necessary in order to influence monetary conditions.

Cash supply and distribution

The SNB is entrusted with the note-issuing privilege. It supplies the Swiss economy with banknotes commensurate with demand for payment purposes. These banknotes meet high standards with respect to quality and security. It is also charged by the Confederation with the task of coin distribution.

Cashless payment transactions

Regarding cashless payment transactions, the SNB is involved in the area of payments between participants of the Swiss Interbank Clearing (SIC) system. The payments are settled in SIC via sight deposit accounts held with the SNB.

Asset management

The SNB manages the currency reserves, the most important component of its assets. It requires currency reserves to ensure that it has room for manoeuvre in its monetary policy at all times. The level of the currency reserves is largely dictated by the implementation of monetary policy.

Financial system stability

The SNB contributes to the stability of the financial system. It fulfils this mandate by analysing sources of risk to the financial system and identifying areas where action is needed. In addition, it helps to create and implement a regulatory framework for the financial sector, and oversees systemically important financial market infrastructures.

International monetary cooperation

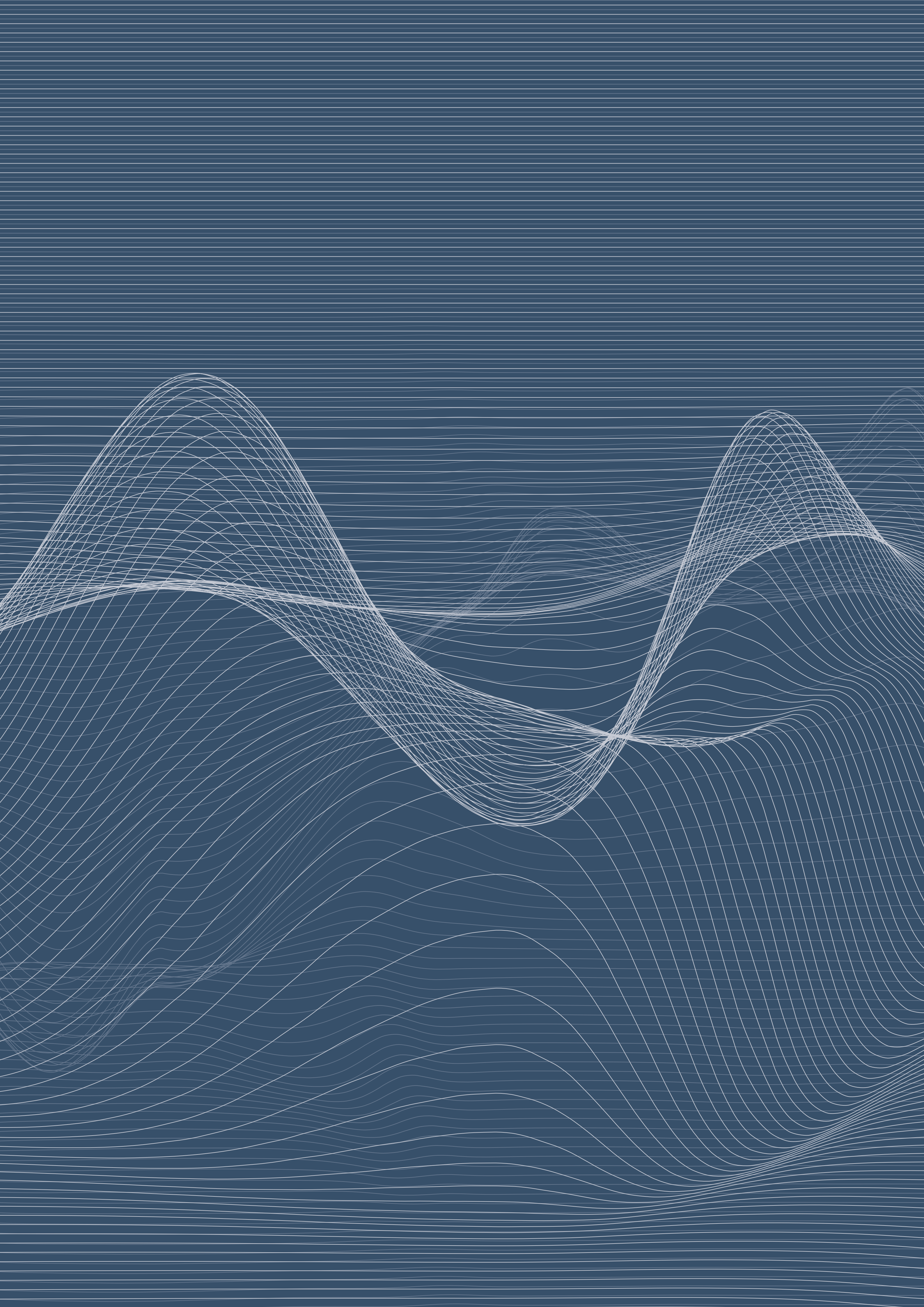
Together with the federal authorities, the SNB participates in international monetary cooperation and provides technical assistance.

Banker to the Confederation

The SNB acts as banker to the Confederation. It processes payments on behalf of the Confederation, issues money market debt register claims and bonds, handles the custody of securities and carries out foreign exchange transactions.

Statistics

The SNB compiles statistical data on banks and financial markets, the balance of payments, direct investment, the international investment position and the Swiss financial accounts.



Accountability report

On 24 March 2016, the Governing Board of the Swiss National Bank (SNB) submitted its accountability report for 2015 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act (NBA). The report provides information about how the SNB has fulfilled its mandate pursuant to art. 5 NBA – in particular as regards its conduct of monetary policy and its contribution to the stability of the financial system. It is submitted to the Federal Council and the General Meeting of Shareholders for information purposes.

SUMMARY

Monetary policy

The SNB pursues a monetary policy serving the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. The SNB's monetary policy strategy consists of the following elements: a definition of price stability, a medium-term conditional inflation forecast, and a target range for a benchmark interest rate – the three-month Libor (London Interbank Offered Rate). From 6 September 2011 to 15 January 2015, a minimum exchange rate of CHF 1.20 per euro was also in place.

The global economy continued to recover in 2015. However, contrary to expectations, growth did not strengthen. While the economies of the euro area and the US grew moderately, growth in China slowed. Worldwide trade was sluggish and commodity prices came under pressure. This particularly affected emerging economies, some of which are highly dependent on commodity exports. The oil price fell to its lowest level since end-2008. This contributed to a further decline in inflation rates in many countries.

The Swiss economy faced some major challenges in 2015. Chief among them were the appreciation of the Swiss franc following the discontinuation of the minimum exchange rate in mid-January 2015 and the weakening of the global economy in the second half of the year. GDP declined in the first quarter and recovered only tentatively by the end of the year. Overall, it increased by 0.9% in 2015, after a 1.9% advance in 2014. Sales prices, and with them profit margins, came under pressure in numerous industries. Sluggish economic activity also had an impact on the labour market; at 3.4% in December, the unemployment rate was slightly higher than a year earlier.

The Swiss consumer price index (CPI) was down by an average of 1.1% in 2015, having stagnated in the previous year. The appreciation of the Swiss franc and the fall in oil prices caused import prices to decline significantly.

At the beginning of 2015, monetary policy was geared to enforcing the minimum exchange rate against the euro. In January, the SNB had to intervene in the foreign exchange market on an increasingly large scale in order to enforce the minimum exchange rate against the euro, and on 15 January, announced the discontinuation of the minimum exchange rate. At the same time, the SNB stated that it would continue to take account of the exchange rate situation in formulating its monetary policy in future, and would, if necessary, remain active in the foreign exchange market. Concurrently with the discontinuation of the minimum exchange rate, the SNB took the interest rate on sight deposits of banks and other financial market participants which exceed a given exemption threshold further into negative territory, to –0.75%. This rate change was designed to reduce the attractiveness of the Swiss franc and thus cushion the effects of the minimum exchange rate's discontinuation. The target range for the three-month Libor was lowered by 0.5 percentage points, to between –1.25% and –0.25%.

The minimum exchange rate was only ever intended to be an exceptional and temporary measure. It was introduced in September 2011 at a time of extreme uncertainty when the Swiss franc's safe-haven status had caused it to appreciate rapidly and sharply against virtually all currencies. In the almost three and a half years until its discontinuation in January 2015, the situation changed considerably. Investor confidence in the US dollar was restored, while the euro weakened against all major currencies. In contrast to 2011, the environment at the beginning of 2015 was no longer characterised by Swiss franc strength, but by euro weakness.

The discontinuation of the minimum exchange rate in January took place against a backdrop of increasingly divergent monetary policy stances on both sides of the Atlantic. Given the anticipated easing of monetary policy in the euro area, the euro was set to weaken further. The minimum exchange rate could only have been enforced through ongoing foreign currency purchases of rapidly increasing magnitude – in an environment where there was no prospect of a long-term stabilisation. The risks associated with maintaining the minimum exchange rate would have compromised the SNB's ability to conduct monetary policy in the long term. Continuing to uphold the minimum exchange rate was thus no longer justifiable.

Implementation of monetary policy

Until 15 January 2015, the SNB had geared its monetary policy instruments to enforcing the minimum exchange rate against the euro. Thereafter, easing upward pressure on the Swiss franc was the main concern. To this end, the SNB charged an interest rate of –0.75% (negative interest) on SNB sight deposits held by banks and other financial market participants, and was prepared to intervene in the foreign exchange market if necessary. Both of these measures helped to relieve pressure on the Swiss franc, which had appreciated sharply after the discontinuation of the minimum exchange rate, Nonetheless, the franc remained significantly overvalued. In 2015, the SNB purchased a total of CHF 86.1 billion in foreign currency to enforce the minimum exchange rate and influence exchange rate developments. The vast majority of these foreign currency purchases were made in January.

Aside from purchasing foreign currency, in 2015 the SNB did not conduct any monetary policy-related open market operations. The money market remained amply supplied with Swiss franc liquidity. The introduction of negative interest initially triggered large interest rate movements on the Swiss franc money market. Various short-term interest rates on the Swiss franc money market were temporarily below the interest rate on sight deposits of –0.75%, however within just a few days they had moved close to this value. The three-month Swiss franc Libor stabilised in the middle of the SNB's target range and stood at –0.76% at the end of 2015.

Cash supply and distribution

Banknote circulation in 2015 amounted to an average of CHF 67.4 billion. Following the introduction of negative interest in January, demand for banknotes temporarily increased at an accelerated pace. Growth in banknote circulation subsequently declined again, but remained at a higher level than a year previously. Work on the new banknote series proceeded according to plan. The first denomination – the 50-franc note – will enter circulation on 12 April 2016.

Cashless payment transactions

In 2015, the Swiss Interbank Clearing (SIC) payment system settled a daily average of approximately 1.7 million transactions totalling CHF 154 billion. Year on year, this represents a 2.0% rise in the number of transactions. The almost 30% increase in the value of transactions was mainly due to a revival of activity on the repo market. Peak days saw 5.3 million transactions and turnovers of up to CHF 293 billion in SIC.

SIC is steered by the SNB, while the system is operated by SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd. It is a central element of the Swiss financial market infrastructure, the Swiss value chain. In 2015, the SNB took a seat on the strategic committee of Securities Services at SIX. This is the business area where the financial market infrastructures that are of particular importance to the SNB are located. Furthermore, at the beginning of 2016, the SNB approved the proposal made by the Board of Directors of SIX Interbank Clearing to extend SIC operating hours as of 2017.

Asset management

At the end of 2015, the SNB's assets amounted to CHF 640 billion, compared to CHF 562 billion one year earlier. Currency reserves, which make up the bulk of the assets, rose by CHF 61 billion to CHF 603 billion year on year. On the one hand, exchange rate-related losses and the decline in the gold price lowered the value of the currency reserves. Foreign currency purchases, on the other hand, contributed to the increase. Two new investment categories were introduced in 2015, i.e. shares of companies in emerging economies and Chinese government bonds denominated in renminbi. Furthermore, the SNB exercised its voting rights – via a proxy – at annual general meetings for the first time in 2015. When casting its vote, the SNB confined itself to aspects of good corporate governance.

Financial system stability

In the area of financial stability, the focus was on strengthening the resilience of the financial system, and on developments on the mortgage and real estate markets. The SNB participated in the work on amending the 'too big to fail' regulations, as part of the working group set up for the purpose and led by the Federal Finance Department. The amendments involve the recalibration of requirements on capital and on the loss-absorbing capacity of globally active systemically important banks in the event of recovery or resolution. In addition, mandatory deadlines are to be set for systemically important banks to finalise the emergency plans for their Swiss operations. These amendments are a decisive step in the overall process of resolving the 'too big to fail' issue in Switzerland.

Against the background of exceptionally low interest rates, the SNB continued to monitor mortgage and real estate market developments closely. In 2015, price momentum in the owner-occupied residential segment slowed further, despite the very low interest rates. However, imbalances were unchanged at a high level. Price momentum in the residential investment property segment remained strong.

In its *Financial Stability Report* of June 2015, the SNB observed that the two globally active Swiss big banks had improved their capital situation further. It recommended that the big banks' efforts to increase resilience continue undiminished, especially with regard to the leverage ratio (unweighted capital ratio). With respect to domestically focused commercial banks, the SNB reported that their exposure to the mortgage and real estate markets had risen once again.

The Banking Act gives the SNB the authority to designate banks and bank functions as systemically important, following consultation with the Swiss Financial Market Supervisory Authority (FINMA). In 2015, the SNB carried out the relevant assessment on PostFinance Ltd and designated it as systemically important in June. In previous years, the SNB had designated Credit Suisse Group, UBS, Zürcher Kantonalbank and the Raiffeisen Group as systemically important banks in accordance with the Banking Act.

The main focus of the SNB's oversight of systemically important financial market infrastructures (FMIs) was once again the implementation of the minimum requirements, which were revised in 2013. The SNB assessed compliance with the requirements and commented on the recovery plans, which had been drawn up by the FMI operators in the previous year for the first time.

International monetary cooperation

The SNB participates in international monetary cooperation through its representation in multilateral institutions and committees, collaborating in some areas with the Confederation and FINMA. Its multilateral partners include, in particular, the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD).

IMF lending continued to decline in 2015, but remained at a high level in a longer-term comparison. As in 2014, the bulk of the financial support provided by the IMF went to Ukraine. The SNB participated in the international monetary assistance for Ukraine by negotiating a loan agreement of USD 200 million on behalf of the Federal Council.

Within the context of its Article IV consultations, the IMF regularly reviews the economic policies of its member countries and issues recommendations. In May 2015, the IMF Executive Board concluded the relevant consultation with Switzerland. It anticipated a temporary slowdown in economic growth in Switzerland as a result of the Swiss franc's appreciation, but expected it to pick up in the medium term. The Board considered the risks to lie in global conditions, in the uncertainties surrounding possible immigration restrictions and in the low level of inflation. It recommended that the SNB relax its monetary policy further and welcomed the introduction of negative interest on sight deposits.

As a member of the BIS and the FSB, the SNB participated in reforms to strengthen the global financial system. The Basel Committee for Banking Supervision made substantial progress in implementing the reform efforts agreed upon in the wake of the global financial crisis. These include, in particular, measures to reduce the excessive variability in risk-weighted assets caused by the use of banks' internal models. From the SNB's standpoint, efforts within the FSB to resolve the 'too big to fail' issue were of central importance. The primary focus was on the approval of the new standard for total loss-absorbing capacity (TLAC) for global systemically important banks.

The SNB strengthened its relationship with the Chinese central bank (People's Bank of China, PBC). A memorandum of understanding on enhancing financial cooperation was signed in January 2015. In November, the PBC authorised direct trading between renminbi and Swiss franc on the China Foreign Exchange Trade System (CFETS) and appointed the Swiss branch of China Construction Bank as the renminbi clearing bank in Switzerland.

Banking services for the Confederation

The SNB provides the Confederation with banking services. Details of the services and the remuneration are laid down in a joint agreement.

In 2015, on behalf of and for the account of the Confederation, the SNB issued money market debt register claims by auction amounting to CHF 24.2 billion and Confederation bonds amounting to CHF 2.7 billion. The issues were effected on SIX Repo Ltd's trading platform. The SNB also carried out roughly 112,000 payments in Swiss francs and approximately 27,000 payments in foreign currencies on behalf of the Confederation.

Statistics

The SNB compiles statistical data on banks and financial markets, the balance of payments, direct investment, the international investment position and the Swiss financial accounts. In so doing, it collaborates with federal government bodies, FINMA, authorities of other countries and international organisations.

At the end of November 2015, the SNB adapted a number of statistical surveys to the revised accounting rules for banks, securities dealers, financial groups and conglomerates.

The SNB publishes its statistics in the form of printed publications, on its website and via the web-based data portal launched in 2015. Data on the new platform can be accessed according to topic, explanatory texts can be viewed directly in the data window, and data revisions are easy to keep track of.

1 Monetary policy

1.1 MANDATE AND MONETARY POLICY STRATEGY

Constitutional and legal mandate

Article 99 of the Federal Constitution entrusts the Swiss National Bank (SNB), as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The mandate is explained in detail in the National Bank Act (art. 5 para. 1 NBA), which requires the SNB to ensure price stability and, in so doing, to take due account of economic developments.

Significance of price stability

Price stability is an important condition for growth and prosperity. Inflation (a sustained increase in the price level) and deflation (a sustained decrease in the price level) both hamper economic development. They hinder the role of prices in allocating labour and capital to their most efficient use, and result in a redistribution of income and wealth.

By seeking to keep prices stable, the SNB helps to create an environment in which the economy can exploit its production potential. The aim of the National Bank's monetary policy is to ensure price stability in the medium and long term. Short-term price fluctuations, however, cannot be counteracted by monetary policy. This applies particularly in the case of large exchange rate or oil price movements, which can lead to more long-term deviations from price stability.

Monetary policy strategy

In its monetary policy strategy, the SNB sets out the manner in which it intends to fulfil its statutory mandate. The strategy consists of the following three elements: a definition of price stability, a conditional inflation forecast over the subsequent three years, and a target range for the reference interest rate – the three-month Swiss franc Libor (London Interbank Offered Rate). In addition, a minimum exchange rate against the euro applied from 6 September 2011 to 15 January 2015.

Definition of price stability

The SNB equates price stability with a rise in the Swiss consumer price index (CPI) of less than 2% per annum. Deflation is also regarded as a breach of the objective of price stability. With its definition of price stability, the SNB takes into account the fact that it cannot steer inflation precisely and that the consumer price index tends to overstate inflation slightly.

Conditional inflation forecast

The conditional inflation forecast published quarterly by the SNB serves as the main indicator for the monetary policy decision and is a key element in communication. In focusing its monetary policy on an inflation forecast for the next three years, the SNB adopts a forward-looking stance and enables the public to assess its medium-term monetary policy intentions. Besides the inflation forecast, the SNB takes into consideration a large number of indicators of domestic and international economic and monetary developments and of financial stability for its monetary policy decisions.

The SNB's inflation forecast is based on the assumption that the reference interest rate communicated at the time of publishing will remain unchanged over the next three years. It is therefore a conditional forecast and shows how the SNB expects consumer prices to move in the event that the interest rate does not change. It cannot be compared with forecasts by commercial banks or research institutions, as these generally factor in anticipated interest rate movements.

Influencing the interest rate environment

The SNB ensures price stability by using its monetary policy operations to influence the interest rate environment and align it with the prevailing economic situation. Lowering real interest rates generally tends to have a stimulating effect on demand and on prices of goods and services, while raising them tends to have a dampening effect. Central banks steer short-term nominal interest rates. Because inflation changes very little in the short term, they also influence real interest rates in this way.

Target range for three-month Libor

The SNB implements its monetary policy by defining a target range for its reference interest rate, the three-month Swiss franc Libor. As a rule, it aims to keep the Libor in the middle of this range, which usually spans 1 percentage point.

The Libor interest rates correspond to the trimmed mean of current interest rates at major international banks operating in London. In summer 2012, it emerged that Libor interest rates had been manipulated, causing their integrity to be called into question. The SNB is involved at both national and international level in efforts to reform benchmark interest rates (cf. chapter 2.2).

Monetary policy with interest rates close to zero

If interest rates are close to zero and can hardly be lowered any further, a central bank must turn to other – so-called unconventional – measures if it wants to further ease its monetary policy. The most important unconventional measures taken by the SNB in recent years were to temporarily set a minimum exchange rate against the euro, to intervene in the foreign exchange market, and to introduce negative interest on sight deposits held by banks and other financial market participants at the SNB.

Minimum exchange rate against the euro

The minimum exchange rate of CHF 1.20 per euro applied from 6 September 2011 to 15 January 2015 and was thus a central element in the SNB's monetary policy for almost three and a half years. It was introduced in exceptional circumstances, when the Swiss franc was substantially overvalued against all major currencies and uncertainty over developments in the global economy and financial markets was very high. Against this background, the appreciation of the Swiss franc presented a risk to the Swiss economy and carried the threat of a deflationary development. For the SNB, the minimum exchange rate was therefore an important tool with which to prevent an undesirable tightening of monetary conditions. At times, enforcing the minimum exchange rate entailed exceptionally large purchases of foreign currency and a correspondingly strong expansion of the SNB balance sheet.

Negative interest on sight deposits at the SNB

The decision to introduce negative interest on sight deposits held by banks and other financial market participants at the SNB was announced on 18 December 2014; the rate was set at –0.25%. Then, on 15 January 2015, at the same time as the discontinuation of the minimum exchange rate, it was lowered to –0.75%. The negative interest rate became effective on 22 January 2015, following amendment of the SNB's Terms of Business. The measure makes Swiss franc investments less attractive, which generally decreases upward pressure on the Swiss franc.

This is the first time that the SNB has used interest rates on sight deposit accounts as a monetary policy instrument to influence the interest rate level. Many central banks, including the European Central Bank (ECB), the Bank of England (BoE) and the US Federal Reserve, have been using it as an instrument for quite some time. While interest rates on deposit accounts at the Federal Reserve and the BoE have, until now, been invariably positive, in June 2014, for the first time, the ECB lowered its deposit rate into negative territory.

Current monetary policy with two key elements

Following the discontinuation of the minimum exchange rate, the SNB adopted a new approach in the implementation of its monetary policy, basing it on the negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary. This combined approach aims to ease upward pressure on the Swiss franc.

Macroprudential instruments

Events during the financial crisis have shown that achieving price stability does not necessarily ensure the stability of the financial system. Financial stability is an important prerequisite for favourable economic development and effective monetary policy implementation. If monetary policy focuses too strongly on financial stability, this does, however, entail the danger of conflicting objectives. Central banks therefore require macroprudential instruments which can be applied in a targeted manner to address imbalances that jeopardise financial stability (cf. chapter 6).

Swiss sovereign money initiative

In December 2015, the request for the popular initiative known as the Swiss sovereign money initiative (*Vollgeldinitiative*) was successful. By putting money creation solely in the hands of the SNB, the initiative aims to fundamentally remodel Switzerland's monetary policy and banking system, and remove banks' money creation powers. Instead, all new money would be created by the SNB and distributed directly to the Confederation or the citizens. The SNB will analyse the impact of the proposed constitutional change on the formulation and implementation of monetary policy and look at the implications for financial stability, and will comment further on the initiative in due course.

Accountability, information and communication

The SNB renders account of the fulfilment of its tasks to the Federal Assembly and the public. It also regularly discusses monetary policy with the Federal Council. The communication of the SNB's medium-term intentions to the public and the markets facilitates a more efficient implementation of monetary policy. Furthermore, this allows the SNB to promote a general understanding of monetary policy and its effects.

The SNB's duties to demonstrate accountability and provide information are laid down in art. 7 of the National Bank Act (NBA). They constitute a corollary to the SNB's independence, as enshrined in art. 6 NBA. Every year, the SNB publishes its accountability report, in which it provides information about how it has fulfilled its mandate. The members of the Governing Board present this report to the business audit commissions of the National Council and the Council of State. The SNB is also frequently called upon to justify its decisions before other parliamentary commissions. Furthermore, as required by the NBA, the Governing Board regularly meets with the Federal Council to discuss the economic situation, monetary policy and other topical issues. The SNB's business report and annual financial statements must be approved by the Federal Council before being submitted to the General Meeting of Shareholders.

Art. 7 NBA also stipulates that the SNB regularly inform the public about its monetary policy and announce its monetary policy intentions. In addition to the *Annual Report*, the SNB is required to publish quarterly reports on the economic and monetary situation, as well as provide important monetary policy data on a weekly basis. It is also obliged to meet reporting requirements in connection with its status as a joint-stock company.

The SNB's communication does not only serve the purpose of fulfilling statutory requirements. Transparency regarding its motivation and actions makes it easier for a central bank to achieve its monetary policy goals. By publishing a conditional inflation forecast, the SNB enables the public to assess its medium-term intentions. The underlying models and indicators are documented in numerous studies and available for expert audiences. Each monetary policy decision is explained in detail in a press release. In December and June, the quarterly monetary policy assessments are followed by a news conference, allowing journalists to put questions to the Governing Board. Further news conferences are held on an ad hoc basis. In 2015, this was the case following both the discontinuation of the minimum exchange rate in January and the quarterly monetary policy assessment in March.

However, there are limits to what the SNB will communicate. Announcements on changes to monetary policy strategy or assessments of financial stability can result in significant valuation changes on the financial markets. The SNB therefore needs to treat market-sensitive information with caution to ensure that no one market participant is able to use this information for their own benefit.

Finally, the SNB attaches great importance to informing the general public. In a direct democracy such as Switzerland, it is particularly important that the population is aware of the role and the limitations of monetary policy, since voters have the possibility of changing the legal foundations of monetary policy. The Governing Board members, their deputies and other SNB experts therefore explain topical monetary policy issues in numerous speeches and interviews. The SNB's delegates for regional economic relations, who are in regular contact with company representatives, are also available to answer companies' questions on policy decisions. Furthermore, the SNB provides comprehensive information about its activities and makes a large amount of economic data available on its website.

1.2 INTERNATIONAL ECONOMIC DEVELOPMENTS

Muted global economic growth

The global economy continued to recover in 2015. However, contrary to expectations, growth did not strengthen. While in most countries the services sector gained some momentum due to robust domestic demand, industrial activity was lacklustre. Commodity prices came under pressure as a result. The environment continued to be dominated by considerable uncertainty, including that emanating from the Greek debt crisis, geopolitical tensions such as the Ukraine hostilities, and military conflict in the Middle East. Concern about further terrorist attacks also increased worldwide.

Sluggish global trade

Worldwide trade in goods once again trailed behind global economic growth. This was due to several factors: the slowing of industrial activity in China caused by the country's structural transition to a service-based economy, the challenging economic situation in many commodity-exporting countries and low investment appetite worldwide.

Further decline in oil prices

Global commodity prices continued to fall in 2015. The price of Brent crude, which fell from around USD 60 to around USD 40 per barrel during the year, dropped to its lowest level since end-2008. Prices of some industrial metals hit multi-year lows. These developments contributed to ongoing low inflation rates in many countries.

Gradual recovery in euro area

In the euro area, GDP grew by 1.6% in 2015, having advanced by 0.9% the year before. This moderate recovery was supported by the expansionary monetary policy of the ECB and associated weakening in the euro. The Single Supervisory Mechanism (SSM), which came into effect in the euro area at the end of 2014, reduced uncertainty regarding the resilience of banks. Credit conditions gradually improved and business confidence picked up. Low energy prices also improved household purchasing power. In this context, consumer spending and business investment gained some momentum. Unemployment in the euro area continued to decline, but remained high until year-end (10.4%).

Economic activity improved in virtually all euro area countries. In Germany, the pace of growth was stable, while in France it increased. Italy, too, recorded an increase in GDP after several years in recession, although the situation remained difficult given that the country continues to struggle with high public debt and non-performing loans in the banking sector. Some countries that had recently faced serious economic problems (e.g. Spain and Ireland) also experienced significant growth. Greece, by contrast, recorded a GDP contraction. This was partly due to uncertainty surrounding protracted reform negotiations and the capital controls introduced at the end of June.

Stable economic growth in the US

In the US, GDP grew by 2.4% in 2015, on a par with the previous year. Supported by robust employment growth in the services sector, slightly higher wage growth and low petrol prices, consumer spending developed favourably. Momentum also picked up in construction investment. However, the strong US dollar dampened demand for US goods and services, which, in turn, curbed manufacturing activity. Moreover, the low oil prices caused substantial investment cutbacks in the energy sector. Investment in fixed assets increased only modestly as a result. Although the unemployment rate fell to 5.0% by year-end, labour market capacity remained marginally underutilised.

Tentative recovery in Japan

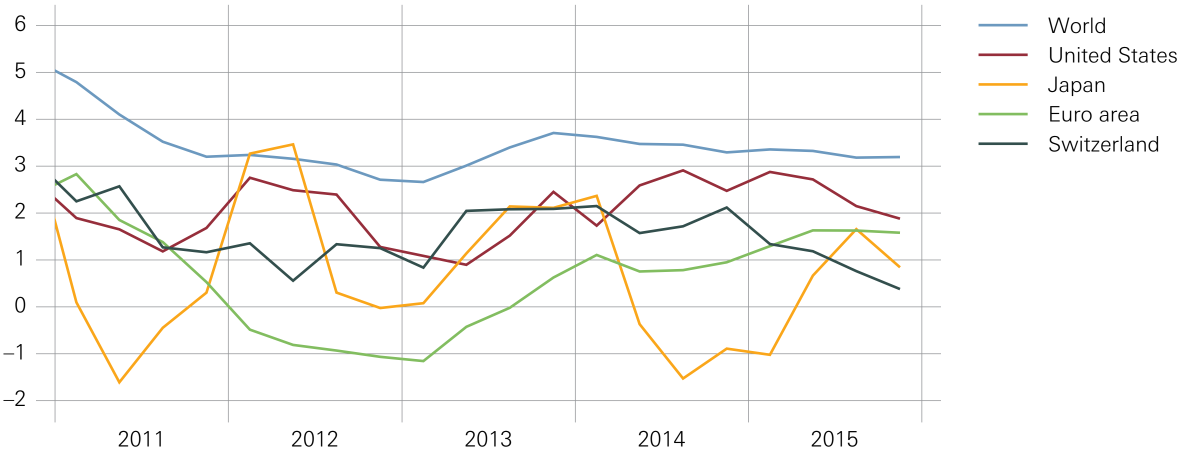
Japan's economic recovery remained tentative, with GDP growing by 0.4% in 2015. After a promising start to the year, industrial activity tapered off for a time; concerns over weaker growth in China weighed on business confidence. The services sector as a whole remained upbeat, supported by booming tourism. Employment figures continued to improve, and in December the unemployment rate fell to its lowest level since 1995.

Slightly slower growth in China

Growth in the emerging economies presented an uneven picture. In China, GDP growth slowed slightly, to 6.9%. This continued robust growth reflected favourable developments in the services sector. Momentum in industrial activity slowed perceptibly, however, dampened by overcapacity in heavy industry and construction.

GROWTH OF GROSS DOMESTIC PRODUCT

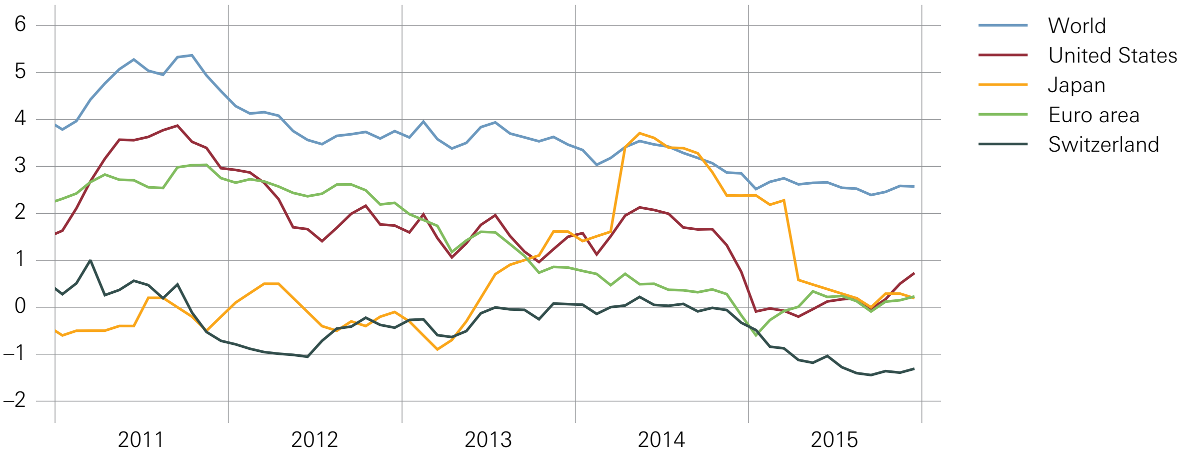
Year-on-year change in percent, in real terms



Sources: SECO, SNB, Thomson Reuters Datastream

INFLATION

Consumer prices, year-on-year change in percent



Sources: IMF, SFSO, SNB, Thomson Reuters Datastream

Recession in Brazil and Russia

The recession in Brazil and Russia, which began in 2014, deepened in 2015. Brazil's growth was impeded by low investment as a result of the slump in commodity prices. High inflation weighed on the Brazilian economy as well. Furthermore, dependent as it is on oil and gas exports, Russia struggled due to low energy prices and Western sanctions imposed in the wake of the Ukraine conflict.

Stagnating consumer prices in advanced economies

Given that aggregate demand remained sluggish and commodity prices fell, inflation once again declined significantly in the advanced economies year-on-year. In the euro area, average year-on-year inflation fell to zero. Core inflation, which excludes volatile product groups such as food and energy, had increased slightly to 1.0% by the year-end quarter. Survey and financial market-based inflation expectations eased. In the US, the stronger dollar also played a part in keeping inflation close to zero throughout the year. However, core inflation gradually increased to 2% thanks to better utilisation of economic capacity. In Japan, year-on-year inflation also hovered around zero in the second half of the year. However, excluding volatile goods and services prices, it rose to 0.8% by the end of the year. Despite very expansionary monetary policy, longer-term inflation expectations remained well below the Japanese central bank's inflation target of 2%.

Differing inflation trends in emerging economies

In China, inflation stood at 1.4% in 2015 – below the central bank's 3% target. In India, consumer price inflation slowed noticeably in 2015, meaning that the central bank managed to meet its 2016 target of keeping inflation below 6% ahead of schedule. In Brazil and Russia, inflation rates once again significantly exceeded the targets set by the central banks, due in part to the depreciation of these countries' currencies.

Contrasting monetary policy stances in advanced economies

Monetary policy in the major advanced economies remained expansionary, however there were signs that the policies being pursued were moving in opposite directions, which increasingly influenced the exchange rate situation.

Tightening of US monetary policy at year-end

Expectations that the US Federal Reserve would tighten monetary policy in the course of 2015 began building early in the year. In December, it increased the target range for its policy rate by 25 basis points, to between 0.25% and 0.5%. This was the first rate hike in the US since December 2008. Notwithstanding this, the Federal Reserve stated that it expected economic conditions to evolve in a manner that would warrant only gradual increases in the federal funds rate; the federal funds rate was likely to remain, for some time, below levels that were expected to prevail in the longer run, when the twin goals of price stability and full employment had been achieved. Moreover, the Federal Reserve announced that it would continue to reinvest principal payments from its security holdings for an extended period.

Further easing in euro area

In the euro area, weak inflation and falling inflation expectations prompted the ECB to ease monetary policy further. It announced a significant expansion of its asset purchase programme in January and began purchasing securities at a rate of EUR 60 billion per month in March. It plans to continue the programme until there is evidence of a sustained adjustment in the path of inflation that is consistent with the ECB's medium-term price stability target of below, but close to, 2%. In December, the ECB adopted further measures, lowering its deposit rate by 10 basis points, to –0.3%, and announcing that it was both extending the schedule of its asset purchase programme until at least March 2017 and expanding the set of securities eligible for purchase. Proceeds from maturing securities are to be reinvested. The ECB also announced that it would supply banks with unlimited liquidity until at least the end of 2017, as part of its refinancing operations.

Japan's monetary policy unchanged

The Bank of Japan made no additional adjustments to its monetary policy in 2015. Since easing policy in October 2014, it has been increasing its holdings of long-dated Japanese government bonds at an annual rate of JPY 80 trillion (roughly 16% of GDP). This monetary policy path is intended to support inflation expectations and gradually lift annual inflation to 2%.

Divergent monetary policy stances in emerging economies

The People's Bank of China eased monetary policy significantly in 2015. While in the first half of the year its focus was primarily on stimulating the economy, further easing in the second half took place against a backdrop of turbulence on China's stock market and efforts to make the country's exchange rate more flexible. In India, the central bank made the most of the monetary policy latitude afforded by a favourable inflation trend to further cut its key interest rate in an effort to support the economy. The central banks of Brazil and Russia, by contrast, tightened their monetary policies in order to combat high inflation and prevent their respective currencies from depreciating.

1.3 ECONOMIC DEVELOPMENTS IN SWITZERLAND

Significant economic slowdown in Switzerland

The appreciation of the Swiss franc following the discontinuation of the minimum exchange rate in mid-January and the weakening of the global economy in the second half of the year presented the Swiss economy with major challenges in 2015. The economy deteriorated in the first quarter and recovered only tentatively by the end of the year. According to an estimate by the State Secretariat for Economic Affairs (SECO), GDP increased by 0.9% in 2015, after a 1.9% advance in 2014. Sales prices, and with them profit margins, came under strong pressure in numerous industries. This was clearly expressed, too, by company representatives in discussions with the SNB's delegates for regional economic relations.

Underutilisation of production capacity increased as economic growth slackened. The output gap, which is defined as the percentage deviation of GDP from estimated aggregate potential output, widened and remained negative. Unemployment increased and, at the end of 2015, was slightly higher than it had been a year earlier.

Dampened export demand

Developments in goods exports (excluding merchanting) were hampered by two factors. Global demand for industrial goods lost momentum, and the appreciation of the Swiss franc impaired the price competitiveness of the Swiss export industry. Goods exports saw a strong decline in the first quarter in particular. They picked up again in the further course of the year, supported mainly by demand from the US. As in the year before, a significant contribution was made by exports of chemical and pharmaceutical products. In most other lines of manufacturing, however, real exports decreased. Owing to falling sales prices, the slowdown in nominal exports was even more noticeable. Overall, real exports of goods and services grew by 3.3%. This favourable development was largely due to the strong increase in merchanting.

Disparate developments by industry

Despite sluggish global industrial activity and the appreciation of the Swiss franc, value added increased in manufacturing overall, as well as in business-related and public services and in healthcare. Other industries recorded significantly weaker development. Value added contracted in trade and in financial services; tourism also declined.

Consumer spending by private households continued to grow moderately in 2015. The actual momentum may well have been somewhat stronger, since household spending abroad increased again owing to the strong Swiss franc, but cross-border shopping is not fully included in the reported consumption data. Affected by this were, in particular, food, clothing, shoes and leisure goods. Supported by the consistently strong population growth and robust real income developments, expenditure for housing, health and transport increased significantly.

Moderate growth in consumption

Construction investment was down for the first time since 2007. This largely reflected a slowdown in residential construction following the strong increase in the previous years.

Decline in residential construction investment

Equipment investment grew under the influence of various disparate factors. On the one hand, companies' willingness to invest was dampened by the unsatisfactory growth outlook, as well as squeezed profit margins and low capacity utilisation. On the other, as a result of the appreciation of the Swiss franc, companies benefited from lower procurement costs for equipment.

Rise in equipment investment

REAL GROSS DOMESTIC PRODUCT

Year-on-year change in percent

	2010	2011	2012	2013	2014	2015
Private consumption	1.6	0.8	2.7	2.2	1.3	1.1
Government consumption	0.2	2.1	2.1	1.3	1.3	1.7
Investment	4.4	4.3	2.9	1.2	2.1	1.4
Construction	3.5	2.5	2.9	3.1	3.3	–1.2
Equipment	4.9	5.3	2.8	0.0	1.3	3.2
Domestic final demand[1]	**2.2**	**1.9**	**2.7**	**1.8**	**1.5**	**1.2**
Exports of goods and services[1]	7.9	3.5	3.0	0.0	4.2	3.3
Aggregate demand[1]	**4.2**	**2.5**	**2.8**	**1.1**	**2.5**	**2.0**
Imports of goods and services[1]	9.5	4.7	4.4	1.3	2.8	1.8
Gross domestic product	**3.0**	**1.8**	**1.1**	**1.8**	**1.9**	**0.9**

1 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as objets d'art and antiques).
Sources: SECO, SFSO, SNB

Slight rise in unemployment

The economic slowdown also had an impact on the labour market. Within one year, the number of unemployed persons increased from 147,000 to 159,000. Accordingly, the seasonally adjusted unemployment rate moved up slightly to 3.4%. Short-time working also edged up, yet remained at a comparatively low level until the end of the year.

Higher employment

At 1.5% on average, the number of employed persons rose at approximately the same rate as in the preceding year, but momentum decreased noticeably in the course of the year. While new jobs were created in the services sector, employment in manufacturing declined somewhat.

Higher total wage bill

According to the System of National Accounts (SNA), the total real wage bill was up by 3.1%, a somewhat stronger increase than in the year before. This development primarily reflects the higher number of employed persons and the negative inflation. The Swiss wage index, however, showed that nominal hourly wages also exhibited a slightly stronger rise than in the previous year.

The SNB's contacts with industry

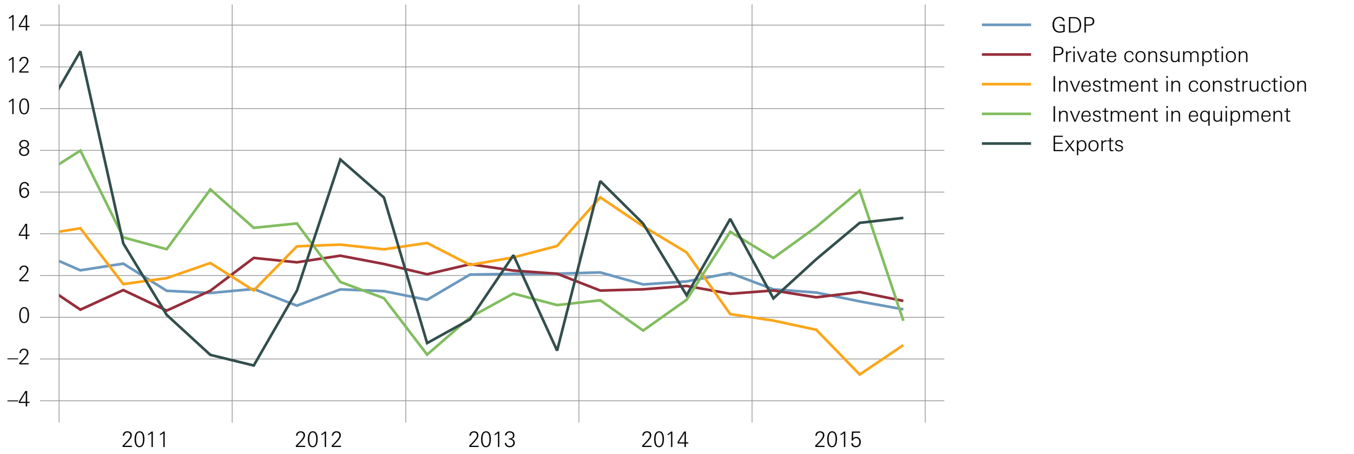
The SNB bases its regular assessments of the economic situation on the widest possible range of information sources. This includes information gathered by the SNB's delegates for regional economic relations.

Based at eight different locations, the SNB delegates are constantly in touch with companies from different areas of the economy. Surveys of about 240 companies are carried out four times a year. Different companies are chosen as respondents in each round of surveys. They are selected according to a given set of criteria such as importance of the industry, size of the company and correlation of an industry's value added with GDP. The public sector and agriculture are not taken into consideration.

Talks with company representatives, which are confidential, aim to assess the company's course of business as comprehensively as possible and to evaluate the outlook, including the associated opportunities and risks, from the company's perspective. Another regular area of attention is the impact of current monetary conditions – such as interest rate level and exchange rates – on the companies concerned.

GROSS DOMESTIC PRODUCT AND COMPONENTS

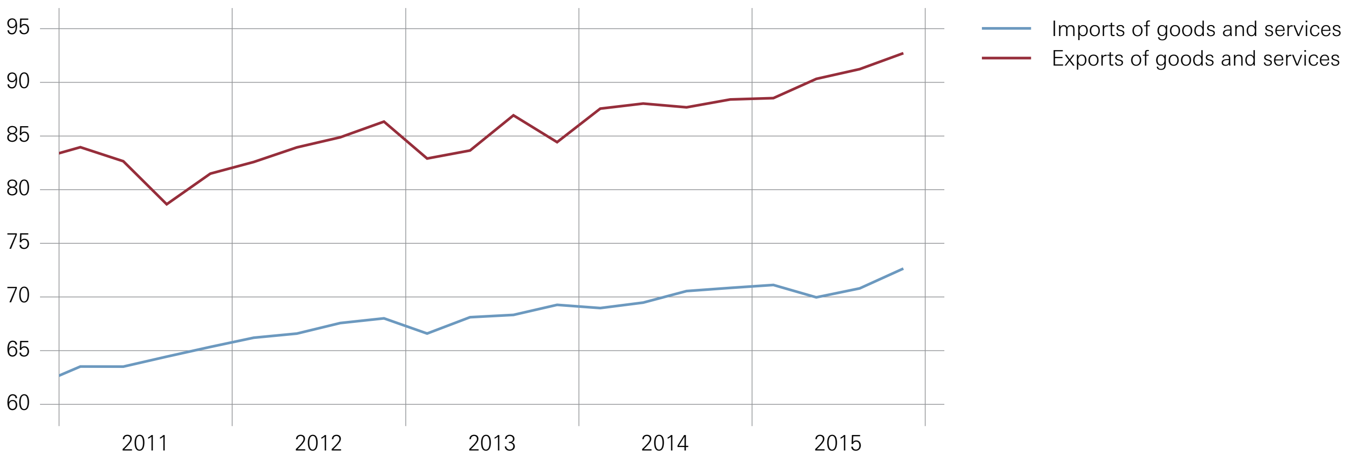
Year-on-year change in percent, in real terms



Sources: SECO, SNB

FOREIGN TRADE

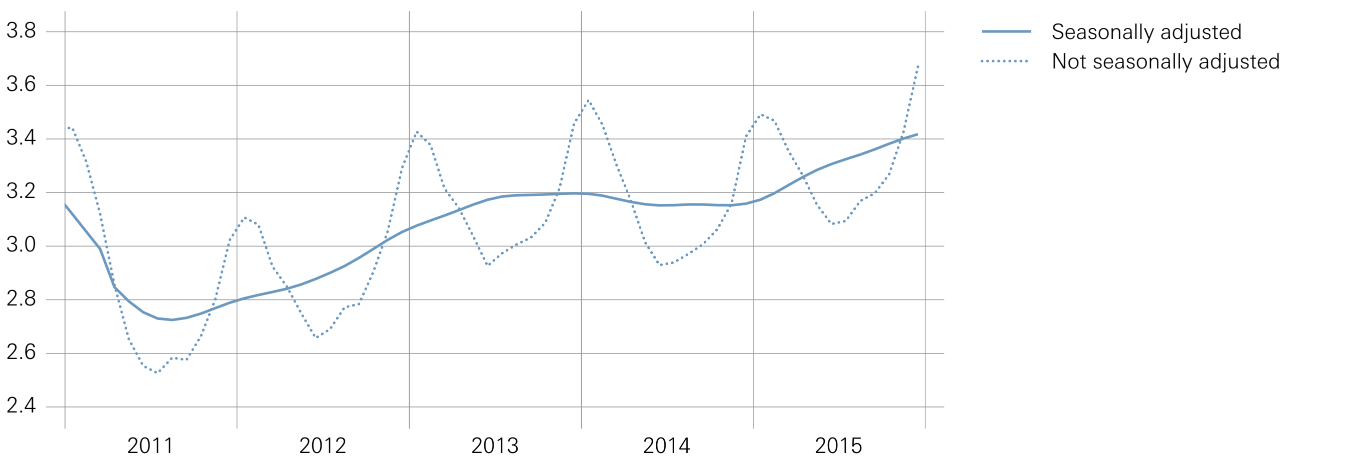
In CHF billions, in real terms, seasonally adjusted



Sources: SECO, SNB

UNEMPLOYMENT RATE

In percent



Sources: SECO, SNB

Such information collected by the SNB delegates is rapidly available and allows for direct and in-depth insights into the reasons for companies' business decisions and the challenges they face. The knowledge gained from the surveys thus enables informative cross-comparisons to be made using model-based economic forecasts and analyses.

In times of significant events and developments with regard to economic policy, the information obtained from such talks is particularly valuable. If required, the SNB delegates also conduct special surveys on topical issues, such as the impact of the Swiss franc appreciation or companies' reactions to the acceptance of the mass immigration initiative.

Slower decline in producer and import price inflation since late summer

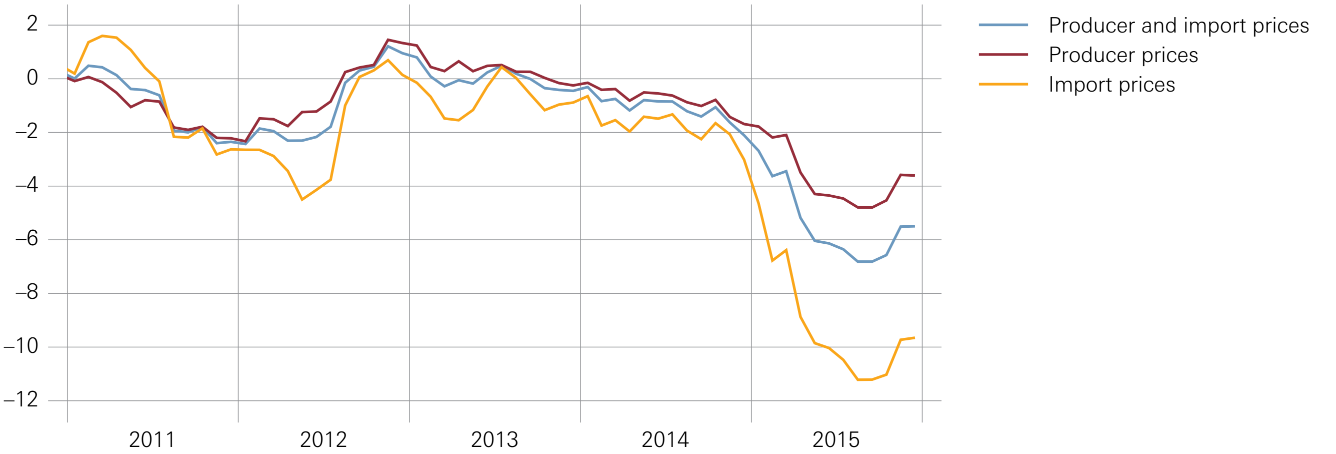
After a 1.1% decline in 2014, producer and import prices decreased by 5.4% in 2015. Falling oil prices and the appreciation of the Swiss franc following the discontinuation of the minimum exchange rate were the main reasons. As expected, import prices recorded a sharper decline than producer prices. Year-on-year, producer and import prices dropped further into negative territory in the first six months of 2015, before starting to increase again in the second half of the year.

Low point of CPI inflation in third quarter

The annual inflation rate, as measured by the CPI, reached a low point of –1.4% in the third quarter of 2015, followed by a slight increase in the fourth quarter. The annual CPI inflation average was down to –1.1%, compared to 0.0% in the previous year. This development was due to the the Swiss franc appreciation and the decline in oil prices. Prices for imported goods and services dropped by 4.7% year-on-year, following a 1.2% decrease in 2014. Year-on-year, the decline in prices slowed from –5.4% in the third quarter to –4.4% in the fourth. Prices for domestic goods and services rose by an annual average of 0.1%, a lower increase than in the year before (0.4%).

PRODUCER AND IMPORT PRICES

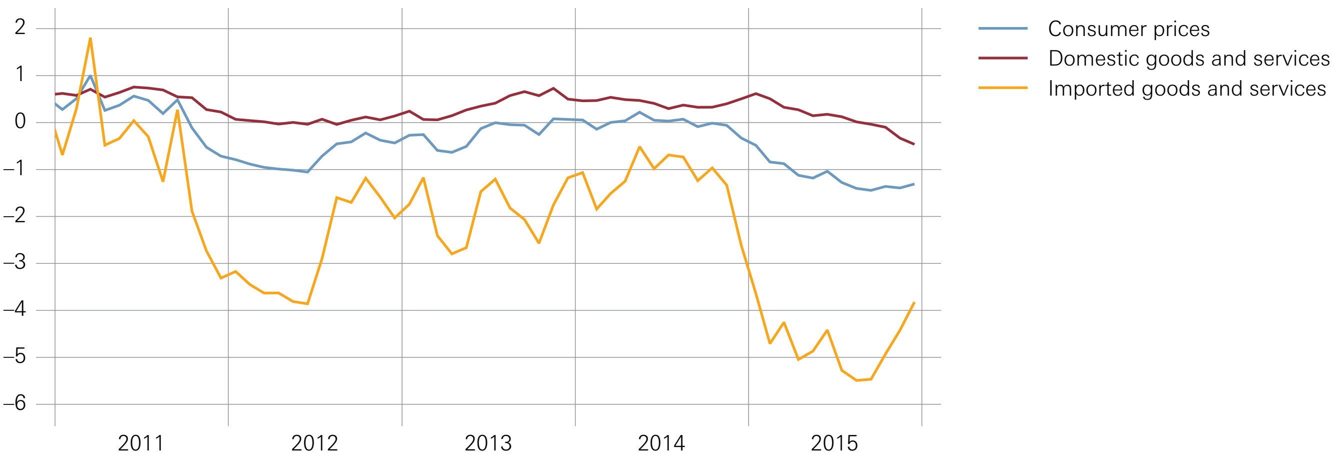
Year-on-year change in percent



Sources: SFSO, SNB

CONSUMER PRICES

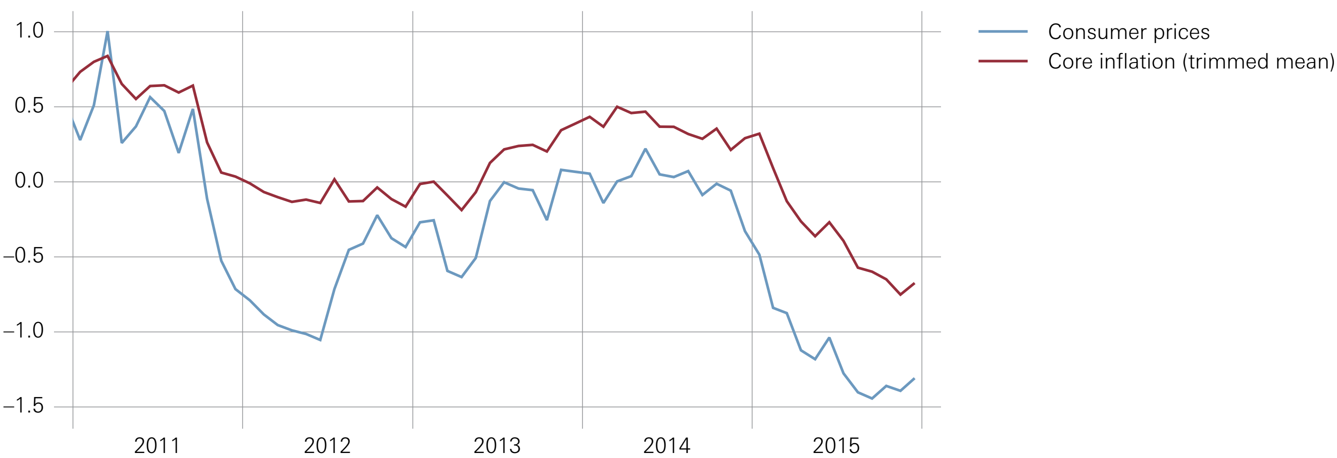
Year-on-year change in percent



Sources: SFSO, SNB

CORE INFLATION

Year-on-year change in percent



Sources: SFSO, SNB

Annual average of negative core inflation

Various short-term fluctuations can have an impact on inflation measured by consumer prices. In order to analyse the inflation trend, the SNB calculates the core inflation rate with the aid of a trimmed mean. The trimmed mean method involves excluding, each month, those goods and services with the greatest price changes compared to the same month one year earlier (15% at either end of the distribution). Oil products were excluded in 2015 as they recorded the most strongly negative inflation rates. Consequently, the core inflation rate calculated using the trimmed mean method decreased by less than CPI inflation in 2015. Averaged over the year, it fell to –0.4%, following 0.3% in 2014. The appreciation of the Swiss franc had a negative impact on core inflation, although the downward pressure was less strong on core inflation than on CPI inflation.

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2014	2015	2015 Q 1	Q 2	Q 3	Q 4
Consumer price index, overall	**0.0**	**–1.1**	**–0.7**	**–1.1**	**–1.4**	**–1.4**
Domestic goods and services	0.4	0.1	0.5	0.2	0.0	–0.3
Goods	0.3	–0.7	0.0	–0.7	–1.0	–1.0
Services	0.4	0.3	0.6	0.5	0.3	–0.1
Private services (excluding rents)	0.4	0.4	0.8	0.5	0.4	–0.2
Rents	1.2	0.8	1.0	1.2	0.9	0.3
Public services	–0.8	–0.8	–0.8	–0.9	–0.9	–0.5
Imported goods and services	–1.2	–4.7	–4.2	–4.8	–5.4	–4.4
Excluding oil products	–1.0	–2.5	–1.5	–2.7	–3.1	–2.7
Oil products	–2.4	–17.4	–19.3	–16.6	–18.5	–14.9
Core inflation						
Trimmed mean	0.3	–0.4	0.1	–0.3	–0.5	–0.7

Sources: SFSO, SNB

1.4 MONETARY POLICY IN 2015

Outlook before discontinuation of minimum exchange rate

The SNB faced considerable challenges in 2015. At the quarterly assessment of 11 December 2014, Switzerland's monetary policy was still dominated by the minimum exchange rate of CHF 1.20 per euro introduced by the SNB in September 2011; all monetary policy measures were focused on its enforcement. Under these conditions, the SNB was predicting an inflation rate of –0.1% for 2015 – that is to say, it expected inflation to continue trending slightly lower than it had in 2014, before rising marginally in 2016. The SNB was expecting economic growth in Switzerland to increase somewhat, to 2% in 2015, compared to between 1.5% and 2% in 2014.

Euro loses value faster

Towards the end of 2014, market participants were preparing for a tightening of monetary policy in the US, while further easing was anticipated in the euro area. The euro lost ground against the US dollar and this, in turn, led the Swiss franc to weaken against the US dollar as well. By contrast, the Swiss franc strengthened against the euro, remaining close to the minimum exchange rate. Shortly after the quarterly assessment of 11 December 2014, the economic crisis in Russia began to escalate. The SNB consequently had to purchase substantial amounts of foreign currency in order to enforce the minimum exchange rate. Furthermore, on 18 December 2014, it decided to introduce negative interest on sight deposits held by banks and other financial market participants at the SNB. This measure served to increase the interest rate differential with other currencies and relieve upward pressure on the Swiss franc. An interest rate of –0.25% was set for sight deposits exceeding a given exemption threshold. The negative interest was to be charged from 22 January 2015 onwards, following amendment of the SNB's Terms of Business.

Discontinuation of minimum exchange rate

In January 2015, the SNB had to intervene in the foreign exchange market on an increasingly large scale in order to enforce the minimum exchange rate against the euro. After carefully weighing up the pros and cons of further maintaining the minimum exchange rate, the SNB announced its discontinuation on 15 January. To cushion the effects of discontinuing the minimum exchange rate, monetary policy has been based on two key elements since then: the negative interest on sight deposits and the SNB's willingness to remain active in the foreign exchange market (cf. *Annual Report 2014*, pp. 42–43). Both of these elements are helping to stabilise price developments and support economic activity.

Minimum exchange rate exceptional and temporary

The minimum exchange rate was only ever intended to be an exceptional and temporary measure. It was introduced in September 2011 at a time of extreme uncertainty when the Swiss franc's safe-haven status had caused it to appreciate rapidly and sharply against virtually all currencies. In the almost three and a half years until its discontinuation in January 2015, the situation changed considerably. The economy picked up again and investor confidence in the US dollar was restored; the euro, however, weakened against all major currencies. In contrast to 2011, the environment at the beginning of 2015 was no longer characterised by Swiss franc strength, but by euro weakness.

Continuing to uphold minimum exchange rate no longer justifiable

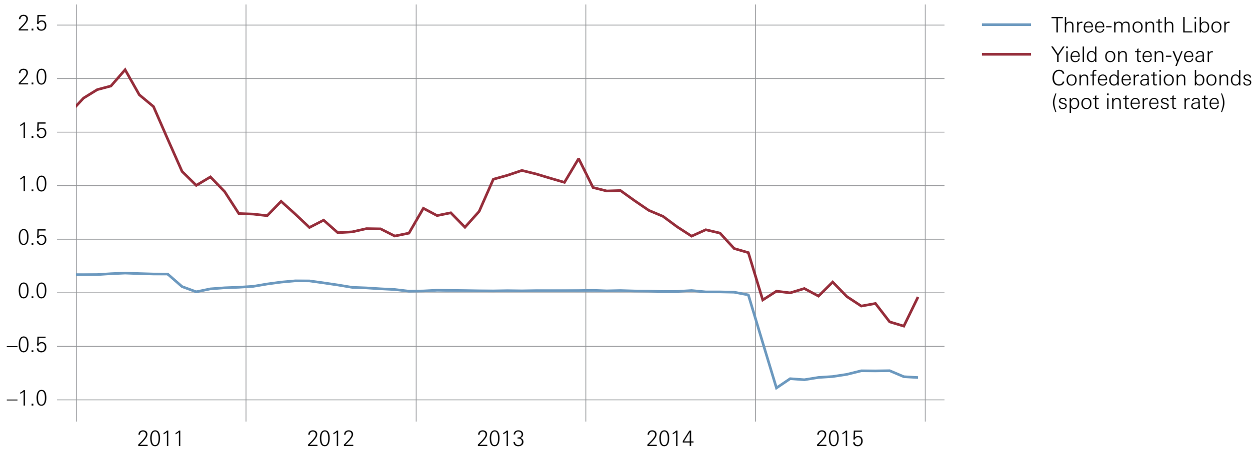
The discontinuation of the minimum exchange rate took place against a backdrop of increasingly divergent monetary policy stances on both sides of the Atlantic. Given the anticipated easing of monetary policy in the euro area, the euro was set to weaken further against major currencies. Under such circumstances, the minimum exchange rate was no longer sustainable. The SNB could only have enforced it through ongoing foreign currency purchases of rapidly increasing magnitude – in an environment where there was no prospect of a long-term stabilisation on the exchange rate front. Continuing to uphold the minimum exchange rate was thus no longer justifiable. The risks associated with maintaining it would have compromised the SNB's ability to conduct monetary policy in the long term. Postponing the inevitable exit would not have lessened the turbulence on the financial market, nor would it have alleviated the impact on the economy. Moreover, the SNB would have incurred a far larger loss.

Willingness to remain active in foreign exchange market

The SNB continued to monitor the exchange rate very closely even after the discontinuation of the minimum exchange rate. On 15 January, the SNB explicitly stated that it would continue to take account of the exchange rate situation in formulating its monetary policy in future, and would, if necessary, remain active in the foreign exchange market. The SNB does not generally communicate any information about its foreign exchange market interventions, but in June 2015 it made an exception: in the wake of the Greek government's announcement that it would be holding a referendum on the EU rescue package – a move which unsettled markets – the SNB disclosed that it had taken stabilising measures.

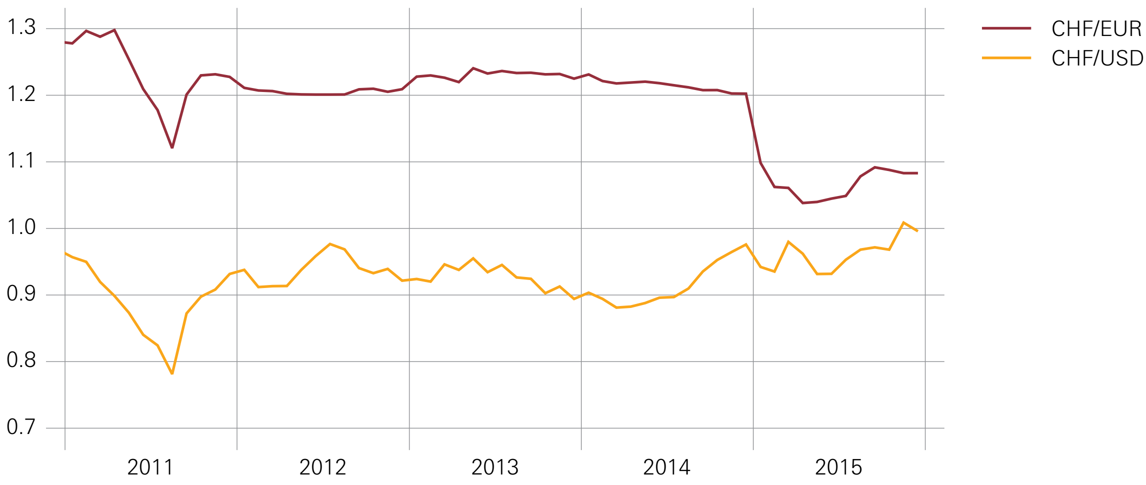
MONEY AND CAPITAL MARKET RATES

In percent



Source: SNB

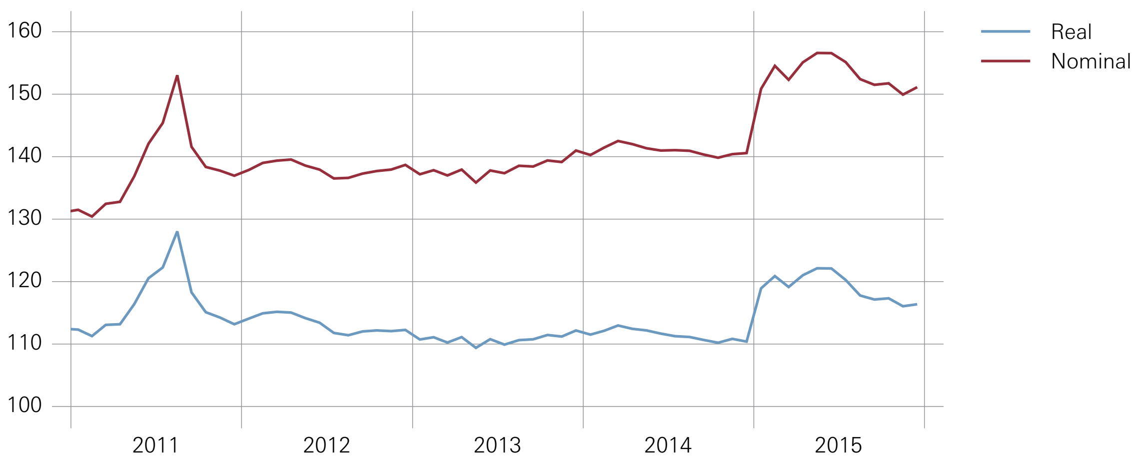
EXCHANGE RATES



Source: SNB

EXPORT-WEIGHTED SWISS FRANC EXCHANGE RATES

40 trading partners; index: January 1999 = 100



Source: SNB

Taking negative interest rate lower

Concurrently with the discontinuation of the minimum exchange rate, the SNB also announced that it was taking the interest rate further into negative territory. On 15 January 2015, it decided to cut the interest rate on SNB sight deposits of banks and other financial market participants which exceed a given exemption threshold by 0.5 percentage points, to –0.75%. This lower interest rate became effective on 22 January 2015. The rate change was designed to reduce the attractiveness of the Swiss franc.

Lowering of target range for three-month Libor

On 15 January, in conjunction with its decision to discontinue the minimum exchange rate and lower the negative interest rate on sight deposits, the SNB lowered the target range for the three-month Libor to between –1.25% and –0.25%. Just a few weeks earlier, on 18 December 2014, the Libor target range had been lowered from between 0% and 0.25% to between –0.75% and 0.25%, entering negative territory for the first time and returning the target range to 1 percentage point. Previously, the SNB had temporarily narrowed the target range to 0.25 percentage points. The decision to move the three-month Libor target range into negative territory signalled that not only the interest rate on sight deposits held at the SNB, but rates on the money and capital markets, too, should be significantly reduced.

Appreciation of Swiss franc against euro

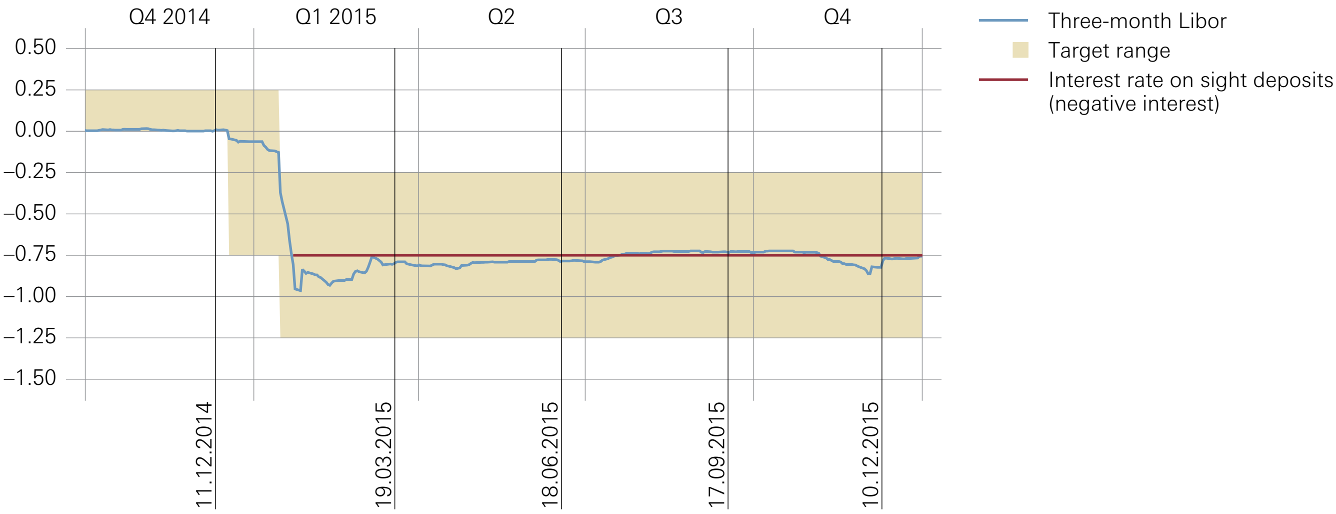
The discontinuation of the minimum exchange rate caught markets off guard. This was reflected in the performance of the Swiss franc, which strengthened very substantially in the immediate aftermath of the decision. In the minutes after the announcement, the CHF/EUR exchange rate fell to an all-time low of CHF 0.85 per euro. However, the euro was rapidly able to recoup some of its losses and the pair settled close to parity in the afternoon of 15 January. By the end of January, the CHF/EUR exchange rate had recovered to CHF 1.05 per euro and it continued to hover around this level until mid-July. In anticipation of the agreement between Greece and its creditors, the Swiss franc continued to weaken slightly against the euro towards the end of July; between mid-August and the end of December, the euro traded in the CHF 1.08–1.10 range.

Higher volatility against US dollar

At the end of 2015, the CHF/USD exchange rate was virtually the same as it had been at the beginning of the year. Following the discontinuation of the minimum exchange rate, the Swiss franc initially appreciated almost as much against the US dollar as against the euro, but the US dollar recovered rapidly thereafter. Only in the second quarter of 2015 did weaker US economic data and expectations of delayed monetary policy tightening in the US cause the Swiss franc to strengthen for a time.

THREE-MONTH LIBOR

Daily values in percent, dates of monetary policy assessments



Source: SNB

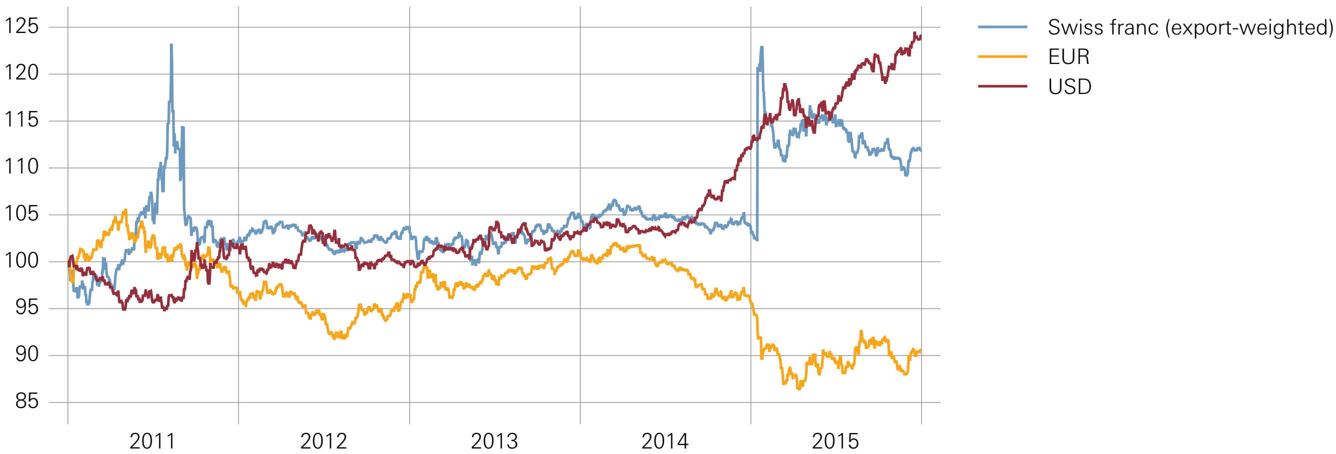
EXCHANGE RATES

Daily rates

Source: SNB

TRADE-WEIGHTED EXCHANGE RATES

Nominal, index: 1 January 2011 = 100



Sources: SNB, Thomson Reuters Datastream

Real appreciation of Swiss franc

The Swiss franc appreciated less markedly against currencies such as the yen or the pound sterling than against the euro. Its export-weighted external value thus rose less sharply than one might have expected on the basis of the CHF/EUR exchange rate alone. The same is true of the real export-weighted external value of the Swiss franc (i.e. the figure adjusted for inflation differences between currencies), which is often used to gauge a country's price competitiveness. In December 2015, the export-weighted real external value of the Swiss franc was about 5% higher than in December 2014, the month before the discontinuation of the minimum exchange rate.

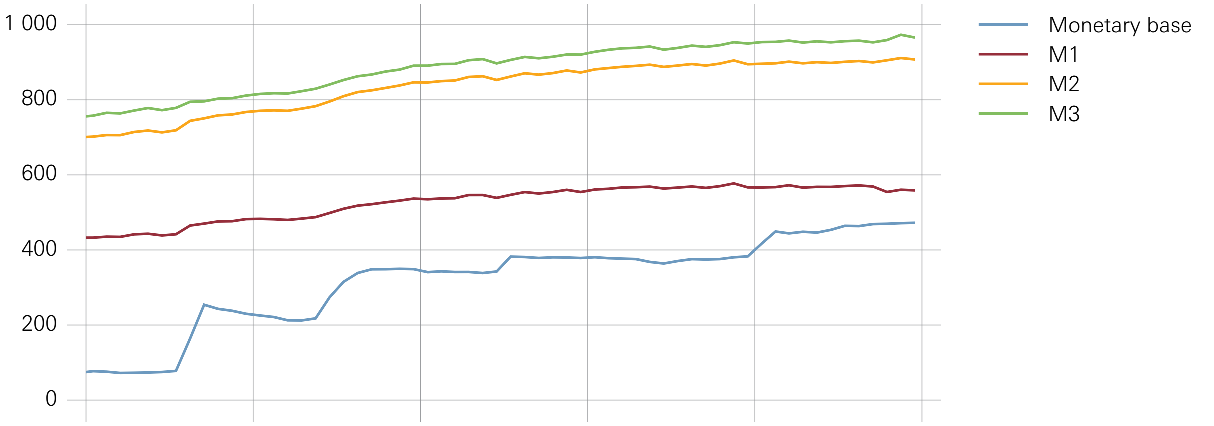
Declining short and long-term interest rates

Negative interest on sight deposits at the SNB caused money and capital market interest rates to fall across all maturities. After a strong initial reaction, the three-month Libor settled at –0.75%, in the middle of the new target range. Long-term interest rates also declined, although the fall in yields on Confederation bonds was more pronounced than that on bonds issued by private sector borrowers. After the discontinuation of the minimum exchange rate in January, yields on ten-year Confederation bonds were predominantly negative, touching new lows below –0.3% on occasion. In the wake of this development, the interest rate differential with other currencies increased, for both short and long-term rates, and this helped to weaken the Swiss franc.

In contrast to interest rates on the money and capital markets, by year-end, long-term mortgage rates were up slightly on the beginning of the year. This is, in part, due to the fact that banks refrained from taking their own interest rates on savings deposits into negative territory. The resultant costs were partially offset by the banks' mortgage business. The negative interest on sight deposits at the SNB thus did not trigger an increase in mortgage lending, which in turn would have exacerbated imbalances on the mortgage and real estate markets.

LEVEL OF MONETARY AGGREGATES

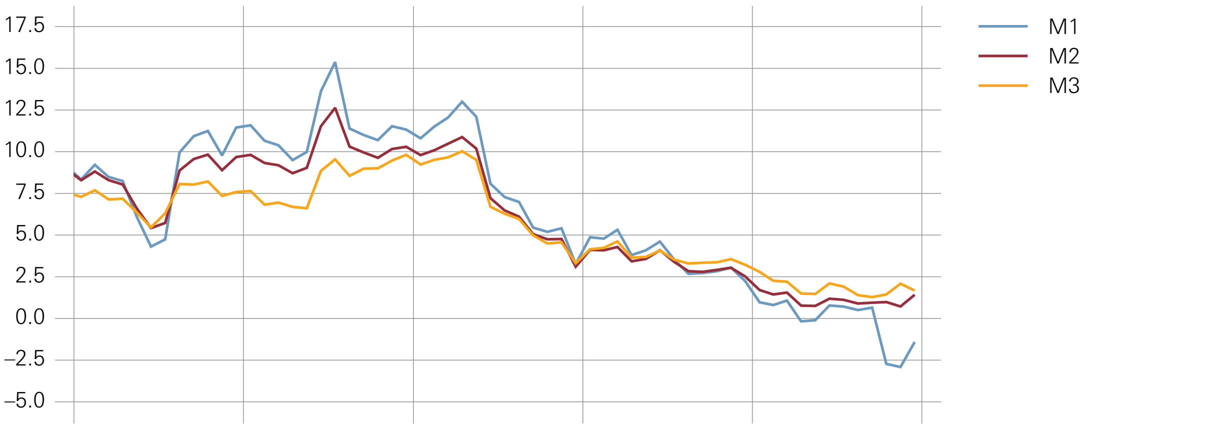
In CHF billions



Source: SNB

GROWTH OF MONETARY AGGREGATES

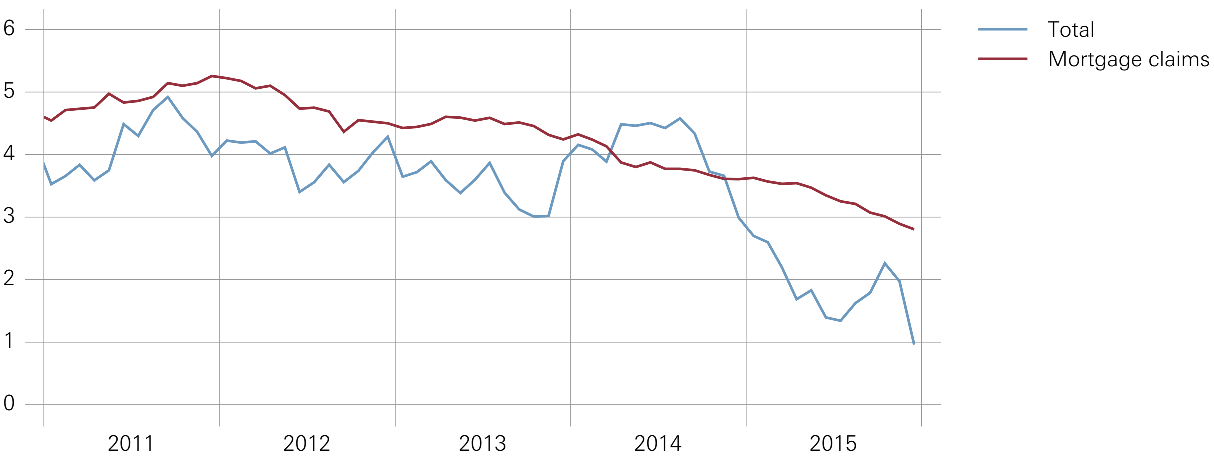
Year-on-year change in percent



Source: SNB

BANK LOANS

Year-on-year change in percent



Source: SNB

Increase in bank sight deposits and banknote circulation

In December 2015, the monetary base, consisting of banknotes in circulation and bank sight deposits held at the SNB, was around CHF 80 billion higher than the previous year. The increase in January was principally due to the SNB's foreign currency purchases surrounding the discontinuation of the minimum exchange rate. The SNB purchased additional foreign currency at the end of June, in particular, when Greece's announcement that it intended to hold a referendum on the EU rescue plan unsettled markets. Most of the increase in the monetary base was attributable to higher bank sight deposits held at the SNB. After the introduction of negative interest, demand for banknotes temporarily increased at an accelerated pace (cf. chapter 3.3).

Marginal increase in broad monetary aggregates and bank loans

The M1, M2 and M3 monetary aggregates grew only marginally in the first three quarters of 2015, continuing the deceleration in money growth observed since 2012. Developments in the fourth quarter were largely determined by special factors. For example, the decline in the M1 monetary aggregate in October was due to the fact that a bank introduced new account products, which resulted in deposits being shifted from transaction accounts to savings accounts. The movements in the growth rate of the monetary aggregates recorded from November onwards were primarily a reflection of the new accounting rules. Without these two special factors, the fourth-quarter monetary aggregates would have remained virtually unchanged.

The counterpart to the deceleration in money growth is weakened growth in mortgage lending. Despite this, imbalances on the Swiss mortgage and real estate markets for residential property remained high (cf. chapter 6.4). The growth rate of other loans exhibits high volatility; however, the average level of other loans has remained virtually unchanged in recent years.

Slight downward revision of international growth forecast

The inflation forecasts published by the SNB at the quarterly monetary policy assessments are based on scenarios for the global economy. In December 2014, the SNB predicted that the global economy would continue to recover, and that growth in 2015 would exceed that of 2014. These projections were revised downwards slightly in March and June. The SNB subsequently forecast that global economic growth in 2015 would be roughly equivalent to that of the two prior years. Assumptions for 2016 remained largely unchanged.

Assumptions for low oil prices

The oil price assumption taken for the inflation forecast, which is based on the price of Brent crude at the time, had to be revised downwards substantially just as it had in autumn 2014. At the December 2014 quarterly assessment, the oil price assumption had been USD 84 per barrel. It was lowered to USD 55 per barrel at the quarterly assessment of March 2015. At USD 65, USD 50 and USD 48 respectively, the oil price assumption remained close to this level for the three subsequent quarters.

Lowering of growth forecast for Switzerland

At the beginning of 2015, the SNB forecast economic growth of 2% for Switzerland. This forecast had to be reduced following the discontinuation of the minimum exchange rate. The SNB subsequently projected growth of just under 1% for 2015. This forecast was left unchanged at the quarterly assessments of June, September and December.

Conditional inflation forecasts with lower three-month Libor

The conditional inflation forecasts published at the quarterly monetary policy assessments assume that the three-month Libor remains constant over the three-year forecasting horizon. The December 2014 forecast assumed a three-month Libor of 0.0%. This assumption was adjusted downwards following the introduction of negative interest. The inflation forecasts published in March, June, September and December 2015 all assumed a three-month Libor of –0.75%.

Lower inflation forecasts after discontinuation of minimum exchange rate

The conditional inflation forecast of December 2014 indicated that the annual inflation rate would be slightly negative in 2015, due mainly to the decline in oil prices on international markets in the second half of 2014. After the discontinuation of the minimum exchange rate, the conditional inflation forecast was revised downwards significantly to take account of the decline in import prices linked to the appreciation of the Swiss franc, lower capacity utilisation and the falling US dollar price of oil until January 2015. The remaining 2015 inflation forecasts deviated only slightly from the March forecast. Assuming a constant three-month Libor of –0.75%, the SNB continued to expect a return to positive inflation from the beginning of 2017.

Persistently high levels of uncertainty and risk

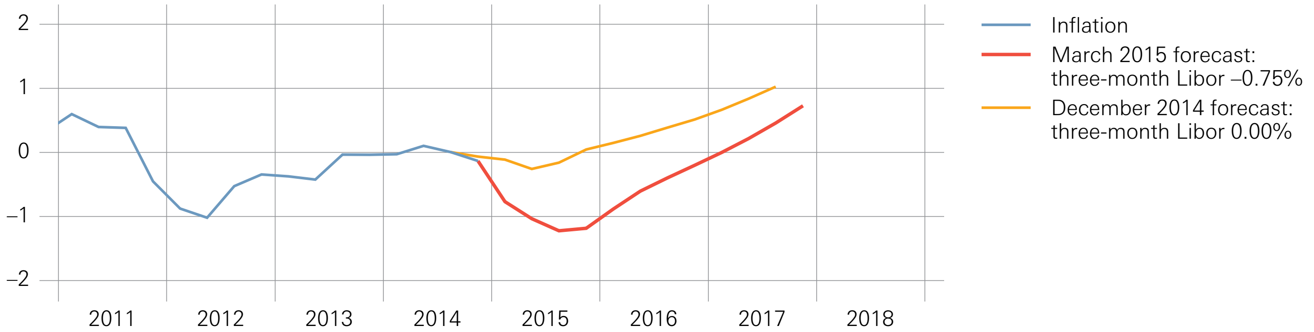
The SNB repeatedly emphasised that uncertainty regarding the future path of the global economy remained considerable and that various risks could hamper recovery. Up to the third quarter, the core risks were the difficult financial situation in Greece and the Ukraine conflict; these were then compounded by heightened uncertainty surrounding the economic outlook in China and public safety concerns linked to terrorist attacks. The SNB regularly ran various alternative scenarios in order to estimate the potential consequences of these developments.

Monetary policy and price stability

The annual inflation rate, as measured by the CPI, was negative in 2015 and thus below the range which the SNB equates with price stability. Since the financial crisis, several factors have repeatedly dampened price developments in Switzerland. These include the appreciation of the Swiss franc in the wake of the European debt crisis, low inflation around the globe and the substantial fall in oil prices. The SNB cannot fully offset such temporary factors, particularly as a further easing of monetary policy under current conditions would inevitably entail some side effects. A forward-looking monetary policy must therefore concentrate on steering inflation back to within the range of price stability in the medium term. According to the conditional inflation forecasts published in 2015, the SNB consistently expected that, in the current monetary policy environment, the annual inflation rate would return to the range that is consistent with the SNB's definition of price stability in early 2017. A temporary period of negative inflation was part of the adjustment process the economy was working through following the sharp appreciation of the Swiss franc and the fall in oil prices; it was helping to reduce the currency's real appreciation.

CONDITIONAL INFLATION FORECAST OF 19 MARCH 2015

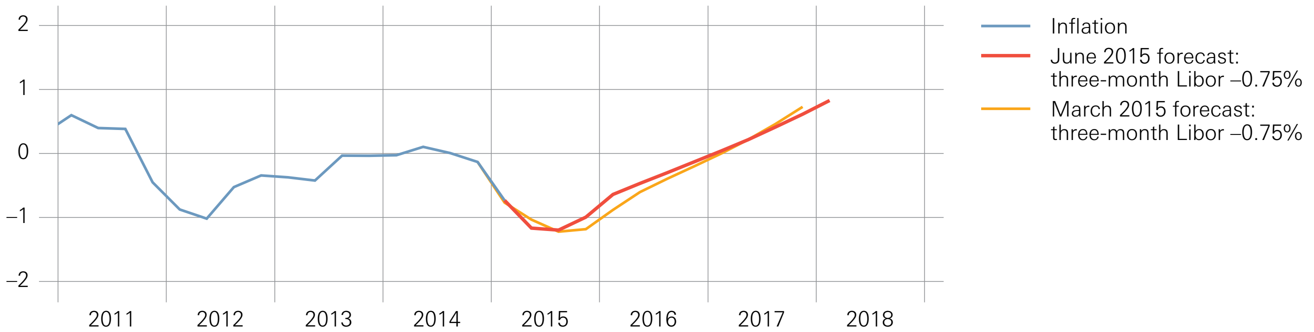
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 18 JUNE 2015

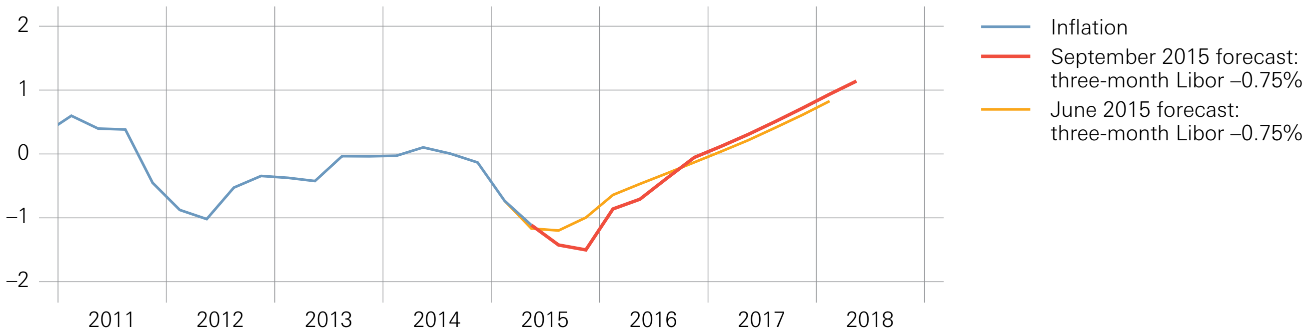
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 17 SEPTEMBER 2015

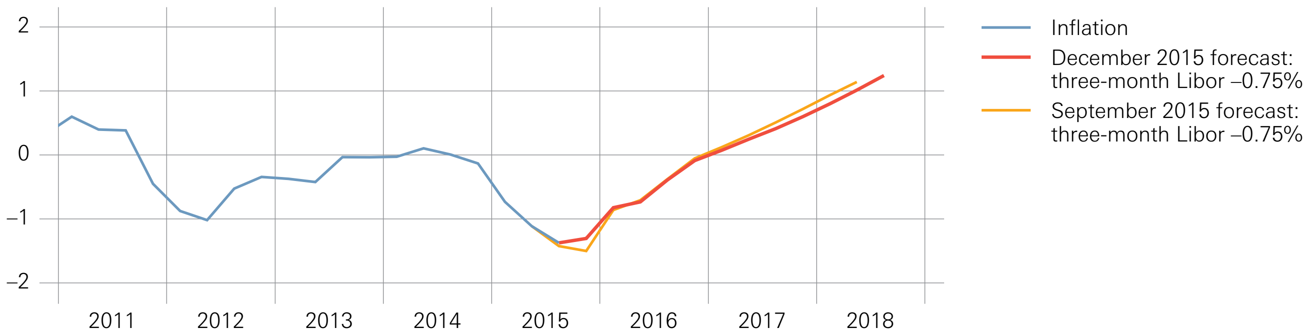
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 10 DECEMBER 2015

Year-on-year change in Swiss consumer price index in percent



Source: SNB

2
Implementation of monetary policy

2.1 BACKGROUND AND OVERVIEW

Mandate

It is the task of the Swiss National Bank (SNB) to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act (NBA)). The SNB implements its monetary policy by managing liquidity on the money market and thereby influencing the interest rate level. The three-month Swiss franc Libor serves as its reference interest rate. The SNB also intervenes in the foreign exchange market as necessary in order to influence monetary conditions.

Scope of business and set of instruments

The framework within which the SNB may conduct transactions in the financial market is defined in art. 9 NBA. As lender of last resort, the SNB also provides emergency liquidity assistance. The 'Guidelines of the Swiss National Bank on monetary policy instruments' set out in detail the SNB's scope of business and describe the instruments and procedures used by the SNB for the implementation of its monetary policy. They also define the conditions under which these transactions are concluded, and which securities can be used as collateral for monetary policy repo operations.

Minimum exchange rate discontinued and negative interest rate adjusted

On 15 January 2015, the SNB discontinued the minimum exchange rate of CHF 1.20 per euro, which it had set on 6 September 2011. At the same time, it lowered the target range for the three-month Libor by 0.5 percentage points, to between –1.25% and –0.25%, and adjusted the interest rate on sight deposits held by banks and other financial market participants at the SNB to –0.75% as of 22 January 2015. It also announced that it would remain active in the foreign exchange market if necessary.

Sight deposits at the SNB

The SNB maintains sight deposit accounts for banks and other financial market participants. The balances on these accounts at the SNB are a financial market participant's most liquid assets, since they can be used immediately to effect payments and are deemed to be legal tender. Domestic banks hold sight deposits to satisfy minimum reserve requirements. Banks also need them for payment transactions and as liquidity reserves. The SNB influences the level of sight deposits by utilising its monetary policy instruments. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.

The level of sight deposits influences activity on the money market. If the supply of liquidity to the financial system is kept low, the individual financial market participants adjust their liquidity positions on the money market. Banks seeking to place funds on a short-term basis provide liquidity in the form of a loan to other banks that require short-term refinancing. These loans can be granted on a secured or unsecured basis. If there is ample liquidity in the financial system, the need for banks to adjust their liquidity positions declines and so too does trading activity on the money market. Negative interest on sight deposits with exemptions stimulates trading on the money market. The reason for this is that institutions with sight deposits over and above the exemption threshold conclude money market operations with institutions which have not yet exceeded their threshold.

2.2 DEVELOPMENTS IN THE MONEY MARKET

High level of sight deposits

As a result of the SNB's foreign currency purchases during 2015, sight deposits held at the SNB rose to CHF 468.0 billion by the end of 2015. The SNB did not conduct any money market transactions for monetary policy purposes in the year under review.

Strong initial reaction in money market rates, followed by normalisation

On 18 December 2014, the SNB announced that it was introducing an interest rate of –0.25% on sight deposits held by banks and other financial market participants at the SNB. On 15 January 2015, concurrently with the discontinuation of the minimum exchange rate, it lowered the interest rate to –0.75%. The negative interest rate was applied to the affected sight deposits on 22 January and triggered large movements on the Swiss franc money market. Various short-term money market rates were temporarily below the interest rate on sight deposits; the Swiss Average Rate Overnight (SARON), the interest rate for secured call money, fell to a new low of –1.69% on 23 January. After just a few days, the money market rates were already close to –0.75%, with spreads comparable to those before 22 January. The three-month Swiss franc Libor stabilised in the middle of the SNB's target range and stood at –0.76% at the end of the year.

Activity on repo market slightly up from low level

Trading activity on the repo market remained minimal in 2015 as a result of the low money market rates and the high levels of Swiss franc liquidity. The introduction of negative interest did, however, lead to a moderate revival of turnover, since institutions whose sight deposits were above the exemption threshold reduced their account balances by means of repo trades, among other things, while others who had not yet exhausted their threshold increased their balances (cf. chapter 2.3). The daily turnover on the repo market rose from CHF 2.16 billion in January 2015 to an average of CHF 5.90 billion from February to December.

High level of compliance with minimum reserve requirements

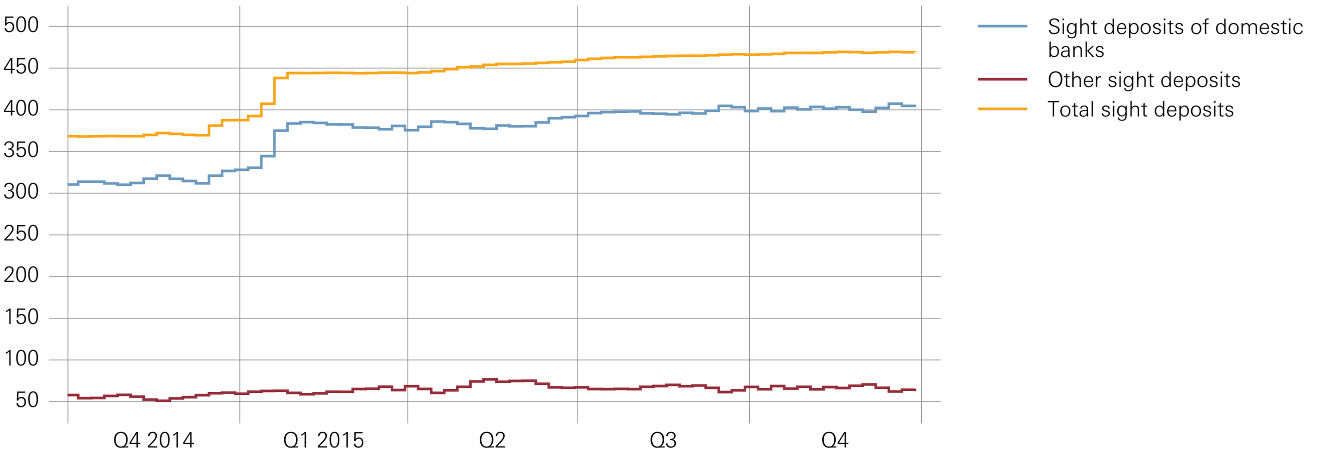
The assets which banks hold to satisfy statutory minimum reserve requirements include sight deposits at the SNB. In 2015, these eligible assets rose by CHF 392 billion on average. The average level of compliance for the year amounted to 2704%, as compared with 2169% a year earlier (cf. chapter 2.4).

Money market infrastructure in operation

A well-functioning, secure and efficient money market infrastructure is vital for the implementation of monetary policy, as well as for market participants' access to central bank liquidity. The SNB uses the trading platform from SIX Repo Ltd, which commenced operation in 2014, to conduct regular open market operations (repo transactions as well as the issue, purchase and sale of SNB Bills), transactions as part of the standing facilities, as well as auctions on behalf of the Confederation. The trading platform and the post-trading functions, such as collateral management, are continually being developed in cooperation with the SNB, thus ensuring an attractive infrastructure for the Swiss franc money market over the long term.

SIGHT DEPOSITS AT THE SNB

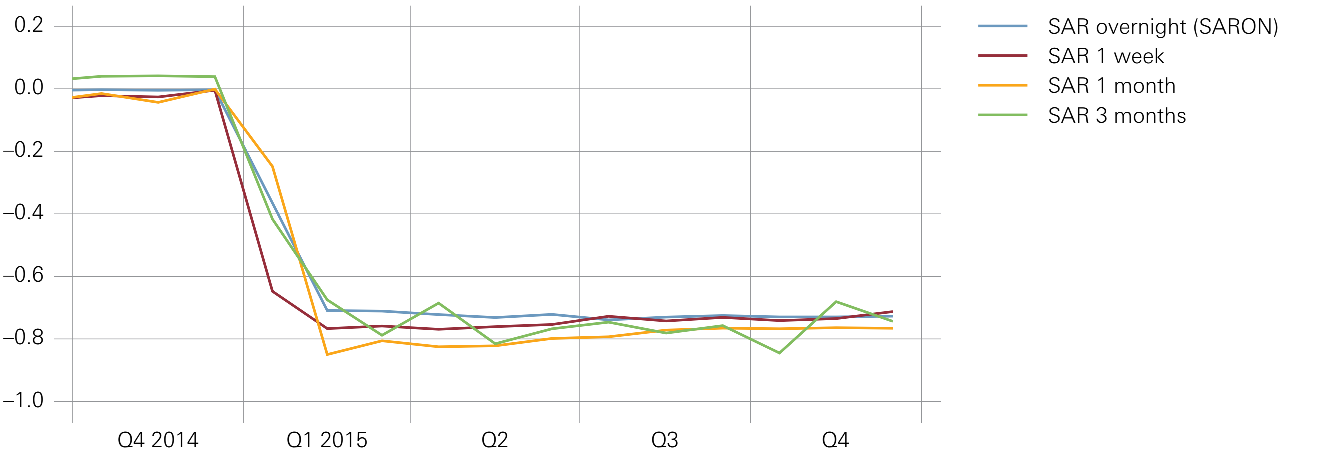
Weekly averages, in CHF billions



Source: SNB

SWISS FRANC REFERENCE RATES (SWISS AVERAGE RATES, SAR)

Monthly averages of daily figures, in percent



Source: SNB

In 2015, the SNB used the trading platform for transactions as part of the standing facilities, as well as debt security auctions on behalf of the Confederation. It also conducted repo transactions in July to test that the SNB, the counterparties and infrastructure operators were fully prepared to carry out monetary policy operations.

Efforts to reform benchmarks

Credible benchmarks for both interest rates and foreign exchange rates are fundamentally important for the smooth running of financial markets and for the implementation of monetary policy. The manipulations that were discovered a few years ago called the integrity of the benchmarks into question. The extensive reform efforts that were subsequently set in motion were continued in 2015. The Financial Stability Board (FSB) coordinated the international reform efforts. In 2015, the FSB published a report in each of these areas, informing of the progress made in implementing the reform proposals. The SNB participated in preparing these reports and supported national and international efforts to reform interest rate benchmarks.

Improving Ibor rates and developing alternatives

For the benchmark interest rates, the FSB had recommended in 2014 that the existing interbank offered rates (Libor, Tibor and Euribor), which are based on unsecured transactions, should be further improved. It also proposed that efforts should be made to develop alternative benchmark interest rates for near risk-free transactions.

The respective administrators forged ahead with reform efforts for the Ibor interest rates in 2015. The ICE Benchmark Administration (IBA) made several reform proposals for the Libor. At the heart of the reforms will be a revised approach with the aim of standardising the interest rate reports of banks on the Libor panel and making them more transaction-based.

Working groups were formed for assessing and implementing alternative reference interest rates for the US dollar, pound sterling, yen and Swiss franc. The heads of the working groups were selected from the private sector. The authorities, including central banks in particular, are lending support.

The working group for the Swiss franc assessed the SARON and the TOIS fixing with regard to increasing their use as benchmark interest rates. Both interest rates are already deployed in the Swiss franc call money segment: the TOIS fixing is employed for the unsecured money market and the SARON for the secured money market. The narrow basis for calculation means that the TOIS fixing does not meet the requirements for use as an alternative. The working group has therefore made a recommendation to concentrate the continued reform efforts on the SARON.

Reforming foreign exchange fixing

In October, the FSB published a report on progress made in implementing the proposals of 2014 to reform benchmarks for foreign exchange rates (foreign exchange fixing). The report was based on assessments by market participants. To this end, the SNB surveyed different counterparties in Switzerland. According to the FSB's assessment, the reform process is well underway.

Principles of collateral policy

The SNB enters into credit transactions with banks and other financial market participants, provided that the loans are covered by sufficient collateral (art. 9 NBA). This collateral protects the SNB against losses and ensures equal treatment of its counterparties. The 'Guidelines of the Swiss National Bank on monetary policy instruments' outline the types of securities that are eligible as collateral for SNB transactions. The criteria for securities admissible for repo transactions are detailed in the 'Instruction sheet on collateral eligible for SNB repos'. Only securities included in the 'List of collateral eligible for SNB repos' are accepted. Besides securities in Swiss francs, the National Bank accepts securities in foreign currencies. By international standards, it traditionally sets high minimum requirements with regard to the marketability and credit rating of securities. This obliges banks to hold recoverable and liquid assets. In turn, this is essential if banks are to be able to refinance their operations on the money market, even under difficult conditions. The volume of collateral eligible for SNB repos at the end of 2015, converted into Swiss francs, amounted to CHF 9,207 billion.

Experience in adjusting collateral policy

On 1 January 2015, the SNB brought its collateral policy into line with the Confederation's revised Ordinance on the Liquidity of Banks (Liquidity Ordinance). With this adjustment to the eligibility criteria for SNB repos, which was already announced in July 2014, the SNB ensured that all collateral eligible for SNB repos also fulfils the criteria for high-quality liquid assets according to the revised Liquidity Ordinance. Initial experience with the revised collateral policy shows that collateral eligible for SNB repos continues to be recognised as a standard on the secured money market. Almost all transactions between financial market participants that were concluded and settled via the repo system were covered by collateral eligible for SNB repos.

2.3 USE OF MONETARY POLICY INSTRUMENTS

Foreign exchange transactions

In order to fulfil its monetary policy mandate, the SNB may purchase and sell foreign currency against Swiss francs on the financial markets. Foreign exchange transactions can be conducted with a wide range of domestic and foreign counterparties. The SNB accepts well over 100 banks from around the world as counterparties. With this network of contacts, it covers the relevant interbank foreign exchange market. The Singapore branch office facilitates round-the-clock foreign exchange market operations, if necessary.

In 2015, the SNB purchased a total of CHF 86.1 billion of foreign currency, with the vast majority of foreign currency purchases being made in January. During the remainder of the year, the SNB also remained active in the foreign exchange market in order to influence exchange rate developments, where necessary.

Foreign exchange swaps

In a foreign exchange swap, the purchase (sale) of foreign currency at the current spot rate and the sale (purchase) of the foreign currency at a later date are simultaneously agreed. Foreign exchange swap transactions can be conducted by way of auction or on a bilateral basis.

In 2015, the SNB did not conclude any foreign exchange swaps for monetary policy purposes.

Repo transactions

In the case of liquidity-providing repo transactions, the SNB purchases securities from a bank (or other financial institution admitted to the repo market) and credits the associated sum in Swiss francs to the counterparty's sight deposit account with the SNB. At the same time, it is agreed that the SNB will resell securities of the same type and quantity at a later date. The bank generally pays interest (repo interest rate) to the SNB for the term of the repo agreement. In the case of liquidity-absorbing repo transactions, the SNB sells securities to a bank and debits the associated sum in Swiss francs to the latter's sight deposit account. At the same time, it is agreed that the SNB will repurchase the securities from the bank at a later date. The National Bank pays interest (repo interest rate) to the bank for the term of the repo agreement. From an economic perspective, a repo transaction is thus regarded as a secured loan. In the case of a repo trade by the SNB, the level of the repo interest rate, the volume and the term of the transactions are dictated by monetary policy requirements. Like foreign exchange swap transactions, repo transactions can be conducted by way of auction or on a bilateral basis with a wide range of counterparties.

There was no need to conduct repo transactions as part of open market operations in 2015.

Monetary policy instruments

The SNB influences the interest rate level on the money market by means of secured liquidity-providing and liquidity-absorbing money market operations and through the applicable conditions. The choice of liquidity management regime depends on monetary policy requirements and the liquidity structure in the banking system. If the banking system shows signs of being undersupplied with liquidity, the SNB provides liquidity through short-term money market operations. If, however, the banking system is oversupplied with liquidity, the SNB absorbs liquidity via short-term money market operations.

Within its set of monetary policy instruments, the SNB distinguishes between open market operations and standing facilities. In the case of open market operations, the SNB takes the initiative in the transaction. Where standing facilities are concerned – these include the liquidity-shortage financing facility and the intraday facility – it merely sets the conditions under which counterparties can obtain liquidity.

Regular open market operations include repo transactions as well as the issue, purchase and sale of SNB Bills. Further open market operation instruments, such as foreign exchange swaps and foreign exchange transactions, are available if necessary. The SNB can carry out its open market operations in the form of auctions or bilateral transactions. Transactions on the money market are mostly concluded via an electronic trading platform. In principle, all banks domiciled in Switzerland and the Principality of Liechtenstein are admissible as counterparties in monetary policy operations. Other domestic financial market participants such as insurance companies, as well as banks domiciled abroad, may be admitted to monetary policy operations, provided this is in the SNB's monetary policy interest and these institutions contribute to liquidity on the secured Swiss franc money market.

One of the monetary policy instruments of the SNB is the interest rate on sight deposit accounts. Art. 9 NBA authorises the SNB to keep interest-bearing and non-interest-bearing accounts for banks and other financial market participants. Until January 2015, the sight deposit accounts were non-interest-bearing. By setting the interest rate on sight deposit accounts and defining the other conditions, the SNB influences the interest rate level on the money market. This instrument takes effect by influencing the cost of holding liquidity.

Own debt certificates

The issuance of its own debt certificates in Swiss francs (SNB Bills) allows the National Bank to absorb liquidity. It can also repurchase SNB Bills via the secondary market in order to increase the supply of liquidity to the financial system where necessary.

In 2015, no SNB Bills were issued or repurchased for monetary policy reasons.

Application of the negative interest rate

Since 22 January 2015, the SNB has been charging interest of –0.75% on sight deposits held by banks and other financial market participants at the SNB.

When calculating negative interest, the SNB grants account holders exemption thresholds. The application of exemption thresholds is based on the following rules. For banks subject to minimum reserve requirements, the exemption threshold is based on the reference period of November 2014 and calculated as twenty times the minimum reserve requirement, and at least CHF 10 million. For account holders not subject to any minimum reserve requirements, for example foreign banks, the exemption threshold has also been set at a minimum of CHF 10 million. In the case of an increase (decrease) in the amount of cash held by a bank subject to minimum reserve requirements, the exemption threshold is reduced (increased) accordingly.

The minimum reserves are ascertained by the SNB using a uniform method (cf. chapter 2.4). The level is calculated for each bank according to its short-term liabilities towards third parties in Swiss francs. Banks holding greater sight deposits in proportion to their minimum reserves are therefore charged more than other banks. Using minimum reserves as the basis for calculating the exemption thresholds ensures that sight deposits being held to comply with the duty to hold minimum reserves are not subject to negative interest. The fact that twenty times the minimum reserve requirement is exempt from negative interest takes the very high level of liquidity in the banking system into account. This measure ensures that the banking system does not have to carry the full interest burden resulting from the high level of sight deposits.

In April 2015, the SNB further reduced what was already a small group of sight deposit account holders granted an exception from negative interest. Since then, the only sight deposit accounts to be excepted from negative interest have been those of the central Federal Administration and the compensation funds for old age and survivors' insurance, disability insurance and the fund for loss of earned income (AHV/AVS; IV/AI; EO/APG). However, the SNB continues to monitor the development of the balances on these accounts. By applying negative interest across the board and keeping the number of account holders granted an exception to an absolute minimum, the SNB respects the principle of equal treatment and ensures that this instrument remains effective.

Burden of negative interest and exhaustion of exemption thresholds

With sight deposits amounting to some CHF 468.0 billion at the end of the year, CHF 171.0 billion were subject to negative interest. The cumulative exemption thresholds totalled CHF 294.1 billion. Earnings on negative interest since its introduction and the end of 2015 amounted to CHF 1.2 billion.

Exhaustion of the exemption thresholds rose from 88% in January to 97% at the end of the year. This increase is due partly to the rise in sight deposits at the SNB and partly to the redistribution of sight deposits between banks.

Intraday facility

During the day, the SNB provides its counterparties with interest-free liquidity (intraday liquidity) through repo transactions so as to facilitate the settlement of payment transactions via the Swiss Interbank Clearing (SIC) system and the settlement of foreign exchange transactions via Continuous Linked Settlement, the multilateral payment system. The funds received must be repaid by the end of the same bank working day at the latest.

Average utilisation of the intraday facility rose slightly to CHF 1.6 billion, as compared with CHF 1.5 billion a year earlier.

Liquidity-shortage financing facility

To bridge unexpected liquidity bottlenecks, the SNB offers a liquidity-shortage financing facility. For this purpose, it grants its counterparties a limit which must be covered at all times by at least 110% collateral eligible for SNB repos. Counterparties have the right to obtain liquidity up to the limit granted until the following bank working day. The liquidity-shortage financing facility is granted in the form of a special-rate repo transaction. The special rate lies 0.5 percentage points above the call money rate and is no less than 0.5%. The basis for the rate is the SARON of the current bank working day. The special rate is valid until 12.00 noon of the following bank working day.

In 2015, the liquidity-shortage financing facility was hardly used. Averaged over the year, the associated volume amounted to almost zero. The limits for the liquidity-shortage financing facility amounted to CHF 44.9 billion; at the end of the year, 84 financial market participants held corresponding limits.

SUPPLYING THE MONEY MARKET WITH LIQUIDITY

Liquidity-related operations in CHF millions[1]

Terms	2015	2014
Open market operations		
Repo transactions[2]	–	+1
Up to 3 days	–	–
4 to 11 days	–	+1
12 to 35 days	–	–
36 days to 1 year	–	–
Foreign exchange swaps[2]	–	–
Up to 7 days	–	–
8 to 28 days	–	–
29 to 94 days	–	–
SNB Bills[2]	–	–3
7 days	–	–3
28 days	–	–
84 days	–	–
168 days	–	–
336 days	–	–
Foreign exchange transactions	+86 075	+25 750
Total	**+86 075**	**+25 748**
Standing facilities		
Intraday facility[3]	+1 629	+1 547
Liquidity-shortage financing facility[2]	0	+1
Other monetary policy instruments		
Negative interest on sight deposit account balances	–1 164	–

1 A plus sign (+) indicates liquidity-providing; a minus sign (–) indicates liquidity-absorbing.
2 Average level of liquidity-providing operations outstanding at the end of the day.
3 Average daily turnover.

2.4 MINIMUM RESERVES

Main features of the regulation

The duty to hold minimum reserves (arts. 17, 18, 22 NBA) ensures that banks have a minimum demand for base money; it thus fulfils a monetary policy objective. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the SNB. The minimum reserve requirement currently amounts to 2.5% of the relevant short-term liabilities, which are calculated as the sum of short-term liabilities in Swiss francs (up to 90 days) plus 20% of liabilities towards customers in the form of savings and investments.

If a bank fails to fulfil the minimum reserve requirement, it is obliged to pay the SNB interest on the shortfall for the number of days of the reporting period during which the minimum reserve requirement was not observed. The interest rate is 4 percentage points higher than the average call money rate (SARON) over the reporting period in question.

MINIMUM RESERVES

In CHF millions

	2015 Outstanding Average	2014 Outstanding Average
Sight deposits at the SNB	385 663	312 289
Banknotes	6 540	6 490
Coins in circulation	130	131
Eligible assets	392 333	318 910
Requirement	14 508	14 706
Compliance in excess of requirement	377 825	304 204
Compliance in percent	2 704	2 169

In 2015 (between 20 December 2014 and 19 December 2015), statutory average minimum reserves amounted to CHF 14.5 billion. This is a 1% decrease year-on-year. Eligible assets rose to CHF 392.3 billion on average, compared with CHF 318.9 billion a year previously. Banks exceeded the requirement by an annual average of CHF 377.8 billion; the average degree of compliance was 2704% (2014: 2169%). The statutory minimum reserve requirement was met by all 256 banks.

2.5 LIQUIDITY IN FOREIGN CURRENCIES

Swap arrangements

Since October 2013, standing bilateral liquidity swap arrangements have been in place between the SNB, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the US Federal Reserve. This permanent network of swap arrangements is to remain in place until further notice and allows the participating central banks, where necessary, to provide banks in their jurisdiction with liquidity in any of the relevant currencies, thus serving as a prudent liquidity backstop.

In 2015, the SNB offered weekly repo transactions in US dollars with a term of one week, for which there was no demand.

Up to year-end 2015, it was not necessary for the SNB to provide liquidity in the other foreign currencies or in Swiss francs in the context of these arrangements.

A swap agreement has also been in operation between the SNB and the Chinese central bank since 2014.

2.6 EMERGENCY LIQUIDITY ASSISTANCE

SNB as lender of last resort

The SNB can act as a lender of last resort. Within the context of this emergency liquidity assistance, the SNB can provide liquidity to domestic banks if they are no longer able to obtain sufficient liquidity on the market.

Conditions

Certain conditions apply in order for emergency liquidity assistance to be granted. The bank or group of banks requesting credit must be important for the stability of the financial system and solvent. Furthermore, the liquidity assistance must be fully covered by sufficient collateral at all times. The SNB determines what securities it will accept as collateral for liquidity assistance. To assess the solvency of a bank or group of banks, the SNB obtains an opinion from the Swiss Financial Market Supervisory Authority (FINMA).

3
Ensuring the supply and distribution of cash

3.1 BACKGROUND

Mandate

The Swiss National Bank (SNB) is entrusted with the note-issuing privilege. Pursuant to art. 5 para. 2 (b) of the National Bank Act, it is responsible for ensuring the supply and distribution of cash (banknotes and coins) in Switzerland. It works to ensure an efficient and secure payment system. The SNB is also charged by the Confederation with the task of putting coins into circulation.

Role of the SNB

Banknotes and coins are supplied to the economy via the two cash distribution services at the Berne and Zurich head offices, as well as 14 agencies operated by cantonal banks on behalf of the SNB. The National Bank issues banknotes and coins commensurate with demand for payment purposes, offsets seasonal fluctuations and withdraws banknotes and coins no longer fit for circulation. Local distribution and redemption of banknotes and coins are performed by commercial banks, Swiss Post and cash processing operators.

3.2 OFFICES, AGENCIES AND CASH DEPOSIT FACILITIES

Turnover at offices

In 2015, the turnover (incoming and outgoing) of the offices in Berne and Zurich amounted to CHF 101.5 billion (2014: CHF 105.7 billion). They received a total of 408.9 million banknotes (2014: 417.2 million) and 1,189 tonnes of coins (2014: 1,228 tonnes). The SNB examined the quantity, quality and authenticity of the notes and coins. The incoming banknotes and coins were offset by an outflow of 420.9 million banknotes (2014: 432.5 million) and 1,635 tonnes of coins (2014: 1,959 tonnes).

Temporary relocation of public counter

Extensive renovation and alteration work on the head office at Bundesplatz 1 in Berne commenced at the beginning of 2015 and is expected to be completed by the end of 2018. During this period, the bank counter, which is open to the public, will be transferred to Bank EEK on Amthausgasse 14/Marktgasse 19 in Berne, where the full range of services will continue to be offered.

Payment transactions by bigger customers, such as commercial banks and cash processing operators, will be settled at a separate location.

Turnover at agencies

The 14 agencies assist the SNB offices by distributing and redeeming cash. They play an important role in ensuring the regional supply and distribution of cash. In order for the agencies to do this, the SNB provides them with cash, which remains the property of the SNB.

The agencies' turnover (incoming and outgoing) amounted to CHF 12.2 billion (2014: CHF 12.6 billion). The share of agency turnover in the SNB's overall turnover was 12.1% (2014: 11.9%).

Cash distribution services

The SNB's main partners – commercial banks, Swiss Post and cash processing operators – tend to site their cash handling activities at a small number of centralised locations, most of which are in the greater Zurich area. This allows them to manage banknotes and coins more efficiently. To ensure the supply of cash in Switzerland at all times, the SNB operates cash distribution centres at the head offices in Zurich and Berne and issues regulations on the manner, place and time for the receipt and delivery of banknotes and coins. Its activities in this field are based on the Federal Act on Currency and Payment Instruments (CPIA).

Cash deposit facilities

Cash processing operators can apply for cash deposit facilities with the SNB. These storage facilities contain stocks of notes and coins. The SNB sets up the facilities with third parties, while retaining ownership. The cash processing operators deposit surplus banknotes and withdraw them as required. The corresponding bookings are made to their sight deposit accounts at the SNB. Cash deposit facilities reduce the amount of incoming and outgoing cash at the SNB, as well as the number of transports made by the operators of cash deposit facilities, which makes for a more efficient supply and distribution of cash. In 2015, there were a total of three cash deposit facilities.

3.3 BANKNOTES

Mandate

Pursuant to art. 7 CPIA, the SNB issues banknotes commensurate with demand for payment purposes and takes back any banknotes which are worn, damaged or surplus to requirements due to seasonal fluctuations. It also determines the denomination and design of the notes. Particular attention is paid to banknote security.

Banknote circulation

In 2015, banknote circulation averaged CHF 67.4 billion (2014: CHF 62.7 billion). The total number of notes in circulation amounted on average to 406.5 million (2014: 389.8 million). Following the introduction of negative interest in January 2015, demand for banknotes temporarily increased at an accelerated pace. While growth in banknote circulation subsequently declined again, it remained high compared to the previous year. In terms of value, the average increase came to 7.5% (2014: 5.0%). After having weakened in 2014, the rate of growth thus returned to the level of previous years. The SNB has thus seen no evidence of large-scale hoarding of cash.

Owing to the lack of empirical data, it was unclear how the introduction of negative interest would impact on demand for cash. The SNB thus maintained an intensive dialogue with its partners. It was important, in this connection, that attention be drawn to the costs and risks associated with hoarding cash. A large portion of these costs are generated by the transport, storage and insuring of banknotes. The main risks of hoarding cash are theft or destruction by fire. Large-scale hoarding of cash is not in the interests of the Swiss economy. It undermines the effectiveness of monetary policy measures and hampers the circulation of cash required for payment purposes.

NUMBER OF BANKNOTES IN CIRCULATION

In millions

Annual average for 2015

Issue and disposal

In 2015, the SNB put 107.7 million freshly printed banknotes (2014: 90.3 million) with a face value of CHF 10.3 billion into circulation (2014: CHF 7.6 billion), and destroyed 70.8 million damaged or recalled notes (2014: 76.6 million) with a face value of CHF 4.4 billion (2014: CHF 4.6 billion).

Counterfeits

Approximately 2,400 counterfeit banknotes were confiscated in Switzerland in 2015 (2014: 2,600). This corresponds to 6 counterfeit notes per million Swiss franc notes in circulation (2014: 7); a low figure by international standards.

New banknote series

The SNB is committed to putting banknotes into circulation that both meet the latest technological standards and are innovatively designed. The current banknote series was unique in this respect when it was issued in the mid-1990s and it fulfilled high quality standards. It still has a very high security standard today.

A new banknote series must meet high standards with regard to security and production – and must continue to do so for at least 15 years after its release. The new series, which is currently being developed, suffered a number of delays, as detailed, for example, in previous accountability reports. In 2015, work on the new series proceeded according to plan.

On 12 April 2016, the SNB will begin issuing the new Swiss banknotes. The first denomination to be released will be the 50-franc note. The remaining denominations in the series will subsequently be issued at half-yearly or yearly intervals. Each new issue date will be announced well in advance by the SNB. The current eighth banknote series will continue to be legal tender until further notice. Ample notice will be given as to when the current series will cease to be valid.

3.4 COINS

Mandate

The SNB is entrusted by the Confederation with the task of coin circulation. Its role is defined in art. 5 CPIA. It takes over the coins minted by Swissmint and puts into circulation the number required for payment purposes. Coins that are surplus to requirements are taken back against reimbursement of their face value. The SNB's coinage services are not remunerated, as they constitute part of its mandate to supply the country with cash. In its efforts to ensure the supply of coins, the SNB is supported by Swiss Post and Swiss Federal Railways in accordance with the Coinage Ordinance.

Coin circulation

In 2015, the value of coins in circulation averaged CHF 3,018 million (2014: CHF 2,961 million), which corresponds to 5,351 million coins (2014: 5,241 million). The value of coins in circulation has increased fairly consistently in recent years by between 2% and 2.5% annually.

4
Facilitating and securing cashless payments

4.1 BACKGROUND

Mandate

In accordance with art. 5 para. 2 (c) of the National Bank Act (NBA), the Swiss National Bank (SNB) facilitates and secures the operation of cashless payment systems. Art. 9 NBA empowers the SNB to maintain sight deposit accounts for banks and other financial market participants.

Main feature of SIC

A large part of the cashless payment transactions in Swiss francs of banks and other eligible financial market participants are settled via the Swiss Interbank Clearing (SIC) system. SIC is a real-time gross settlement system. This means payment orders are executed irrevocably and individually in real time through the participants' SIC settlement accounts and are therefore equivalent to cash payments. The prerequisite for participating in SIC is the opening of an SNB sight deposit account.

The SNB's role in SIC

The SNB steers the SIC system and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral. It transfers liquidity from the SIC participants' sight deposit accounts at the SNB to their settlement accounts in SIC at the beginning of each settlement day and transfers the turnover balances from the individual settlement accounts back to the respective sight deposit accounts at the end of the settlement day. Legally, the two accounts form a unit. The settlement day in SIC starts at 5.00 pm on the evening before the corresponding calendar day and ends at 4.15 pm.

As a systemically important financial market infrastructure, SIC is overseen by the SNB (cf. chapter 6.6).

Operation by SIX Interbank Clearing Ltd

The SNB has transferred the operation of the SIC system to SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd (SIX). The provision of services for the SIC system is laid down in an agreement between the SNB and SIX Interbank Clearing. The relationship between the SNB and the SIC participants is governed by the SIC giro agreement.

Involvement in SIC

Based on the SIC agreement, the SNB requests and approves modifications and upgrades to the SIC system. Furthermore, it has a seat on the Board of Directors of SIX Interbank Clearing, and also exerts its influence by participating in various payment system bodies.

Eligibility for SIC

Besides banks, the SNB can also grant other financial market participants operating commercially on the financial markets access to the SIC system. These include securities dealers, insurance companies and institutions such as cash processing operators and financial market infrastructures which play a significant role in implementing monetary policy, processing payments or maintaining the stability of the financial system. Subject to certain conditions, banks domiciled abroad can also gain access to SIC. While all SIC participants must hold a sight deposit account at the SNB, some sight deposit account holders are not connected to SIC.

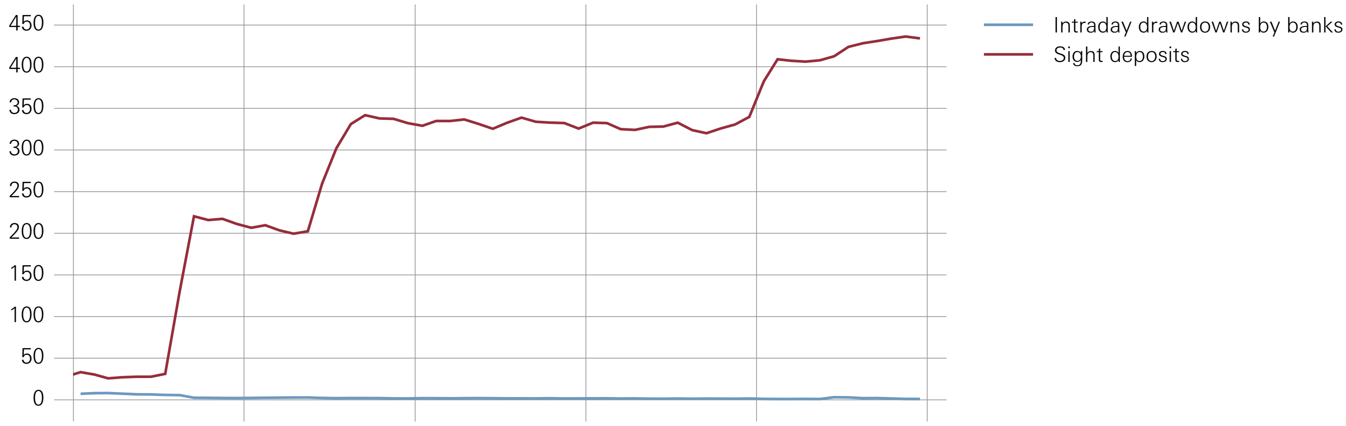
4.2 THE SIC SYSTEM IN 2015

Transactions and turnover

In 2015, SIC settled a daily average of approximately 1.7 million transactions amounting to CHF 154 billion. Compared to the previous year, this represents a 2.0% increase in the number of transactions and a 29.4% increase in the value of transactions. The increase in the value of transactions is mainly due to the revival of activity in Swiss francs on the repo market (cf. chapter 2.2). Peak days in SIC saw up to 5.3 million transactions being settled, with turnovers of up to CHF 293 billion.

LIQUIDITY IN SIC

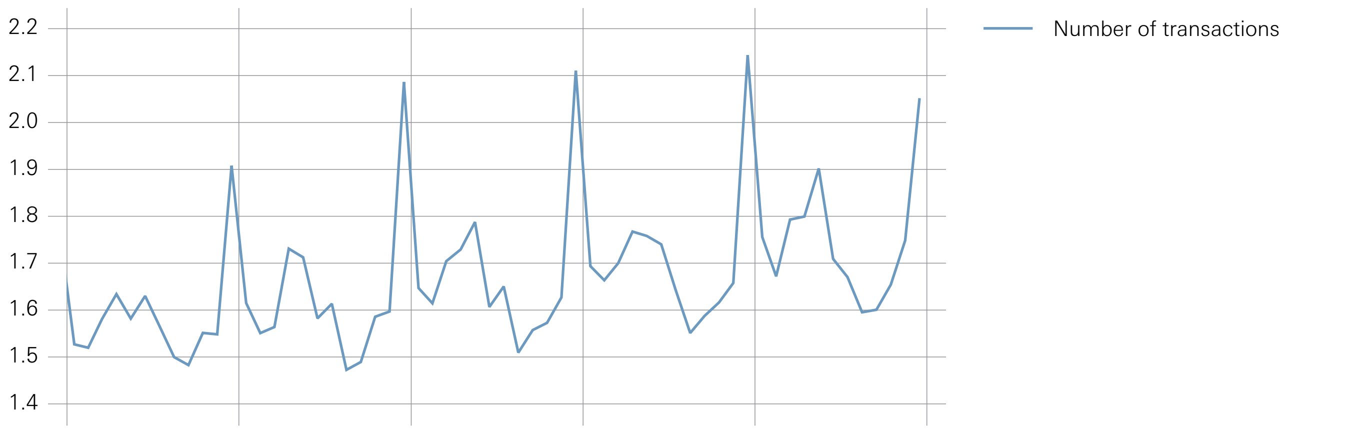
Monthly averages of daily figures, in CHF billions



Source: SNB

TRANSACTIONS IN SIC

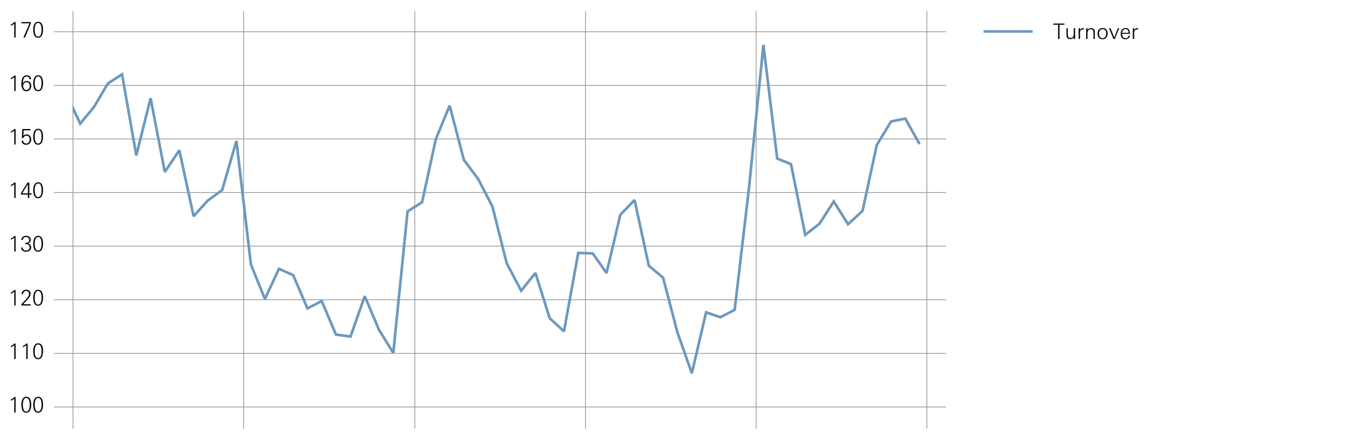
Monthly averages of daily figures, transactions in millions



Source: SNB

TURNOVER IN SIC

Monthly averages of daily figures, in CHF billions



Source: SNB

KEY FIGURES ON SIC

	2011	2012	2013	2014	2015
Number of transactions					
Daily average (in thousands)	1 585	1 628	1 673	1 708	1 742
Peak daily value for year (in thousands)	5 477	4 755	5 498	5 123	5 302
Value of transactions[1]					
Average daily turnover (in CHF billions)	149	120	127	119	154
Peak daily turnover for year (in CHF billions)	255	228	215	208	293
Average value per transaction (in CHF thousands)	94	74	76	69	88
Average liquidity					
Sight deposits at end of day (in CHF millions)	101 189	272 952	332 428	328 597	418 144
Intraday facility[1] (in CHF millions)	5 361	2 251	1 858	1 547	1 629

1 The transaction values are based on a revised method of calculation and thus vary from the figures reported before the 2012 accountability report.

Participants in SIC

As at 31 December 2015, the SNB had 449 holders of sight deposit accounts (2014: 462). Of these, 350 participated in SIC (2014: 358). The majority of SIC participants (245) are domiciled in Switzerland (2014: 247).

4.3 DEVELOPMENTS IN THE SWISS FINANCIAL MARKET INFRASTRUCTURE

New developments in SIC

The SIC system, which began operations in 1987, is being redeveloped to keep pace with technological advances. The main goal of the SIC4 project is to redesign the IT architecture of the SIC system. Among other things, a Swiss security solution will be used for encrypting and authenticating SIC messages. The introduction of SIC4 for the settlement of Swiss franc payments is planned for April 2016. The project is being managed by SIX Interbank Clearing, with the close involvement of the SNB and the banks. After SIC4 has been introduced, the SIC messaging standard will be migrated to ISO 20022 in a further project. The aim of the ISO 20022 standard is to harmonise the electronic exchange of data between participants in differing areas of finance, including payment transactions.

At the beginning of 2016, the SNB approved the proposal made by SIX Interbank Clearing's Board of Directors to extend SIC operating hours. After this adjustment, planned for 2017, SIC participants will have two more hours in the afternoon to submit payments with a same-day value date. This addresses requirements to increase the availability of the financial market infrastructures and accelerate payment settlements.

SIC as part of Swiss financial market infrastructure

The SIC system is steered by the SNB and is a key element of the Swiss financial market infrastructure, which originated as a joint enterprise among Swiss banks. The Swiss financial market infrastructure is operated by SIX, a company owned by around 140 financial institutions who are also the main users of the services provided by SIX. SIX covers the entire Swiss value chain, comprising securities trading (stock exchange), securities services (including securities settlement), payment services (including SIC) and financial information, in the interest of its owners.

Strategic importance of Swiss value chain

A well-functioning, secure and efficient financial market infrastructure is of crucial importance to the SNB. The SNB depends on this infrastructure considerably in fulfilling its statutory mandate, particularly in providing the money market with liquidity as well as facilitating and securing cashless payments. In 2015, the SNB took a seat among other bank representatives on the strategic committee of the Securities Services business area at SIX. This is the business area where the financial market infrastructures that are of particular importance to the SNB are located. The committee serves to help SIX integrate its stakeholders more closely.

5 Asset management

5.1 BACKGROUND AND OVERVIEW

Mandate

The assets of the Swiss National Bank (SNB) fulfil important monetary policy functions. They consist largely of foreign currency assets, gold and, to a lesser extent, financial assets in Swiss francs. Their size and composition are determined by the established monetary order and the requirements of monetary policy. Under art. 5 para. 2 of the National Bank Act (NBA), the SNB is responsible for managing the currency reserves, part of which must be held in the form of gold (art. 99 para. 3 Federal Constitution).

Currency reserves

The SNB's currency reserves are held primarily in the form of foreign currency investments and gold. The currency reserves also include international payment instruments and the reserve position in the International Monetary Fund (IMF).

Currency reserves enable the SNB to have room for manoeuvre in its monetary policy at all times. They also serve to build confidence, and to prevent and overcome potential crises. In the current environment, the level of the currency reserves is largely dictated by the implementation of monetary policy. As a result of the monetary policy operations aimed at curbing the appreciation of the Swiss franc, the level of currency reserves has risen by more than CHF 500 billion to over CHF 600 billion since the onset of the financial and debt crisis in 2008. The higher volume of currency reserves also brought with it an increase in absolute risk.

Financial assets in Swiss francs

The financial assets in Swiss francs are mainly made up of Swiss franc bonds and sometimes also claims from repo transactions.

Investment principles

Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and return. Investment policy takes into consideration all central bank requirements and is based on comprehensive risk/return analyses.

The weighting of the individual investment criteria is derived from the functions of the currency reserves. Ensuring room for manoeuvre in the implementation of monetary policy requires, in particular, a high level of liquidity of assets. The SNB therefore invests a substantial portion of its currency reserves in highly liquid foreign government bonds. The criterion of security is taken into account by structuring investments so that at least the real value is preserved over the long term. To improve the long-term risk/return profile, the foreign currency investments in the major currencies are extended to include investment categories other than government bonds. Broad diversification is a key element in the management of currency reserve risk. Since all investments are valued in Swiss francs, the return must compensate for the Swiss franc's long-term upward trend. This necessitates a sufficiently positive return in the local currencies. By investing part of the currency reserves in a well-diversified range of shares and corporate bonds, the SNB is able to exploit the positive contribution of these asset classes. At the same time, it retains the flexibility to adjust its monetary and investment policy to changing requirements.

In the case of equity investments, the SNB does not actively engage in any stock selection, but replicates a combination of existing market indices. The investment policy is thus shielded from political considerations and the impact on individual markets is kept to an absolute minimum. No investments are made in shares of international mid-cap and large-cap banks and bank-like institutions, in order to avoid possible conflicts of interest. In addition, the SNB does not purchase shares in companies which produce internationally banned weapons, seriously violate fundamental human rights or systematically cause severe environmental damage.

Innovations in 2015

In 2015, two new investment categories were introduced: shares of companies in emerging economies and Chinese government bonds denominated in renminbi. Both of these investment categories have positive diversification effects on the existing portfolio.

Setting up the portfolio of Chinese government bonds was based on the agreement concluded with the People's Bank of China in 2014. It allowed the SNB, as part of an investment quota, to purchase bonds on the local Chinese market up to an amount of CNY 15 billion (over CHF 2 billion). In the second half of 2015, China discontinued quotas limiting investments in the bond market for international public investors such as the SNB.

Since 2015, a small proportion of the equity portfolio is invested in shares of companies in emerging economies. These shares are managed passively, in the same way as those in the other portfolios, by replicating an index.

Furthermore, the SNB exercised its voting rights at annual general meetings for the first time in 2015. For this purpose, it worked together with external companies. In so doing, it initially focused on mid-cap and large-cap companies in the euro area. When casting its vote, the SNB confined itself to aspects of good corporate governance.

Sovereign wealth fund

In light of the strong rise in currency reserves, various ideas have been discussed in recent years concerning the creation of a sovereign wealth fund (cf. *Annual Report 2012*, p. 66). Although conceptions of the goals and structure of a sovereign wealth fund may differ, most proposals share the idea that a part of the SNB's foreign currency investments should be taken off its balance sheet and transferred to a sovereign wealth fund. The general perception is that such a move would help the SNB combat the overvaluation of the Swiss franc by reducing its balance sheet and increasing its room for manoeuvre in monetary policy. It is also believed that foreign currency investments would be managed more profitably within a sovereign wealth fund than as part of the SNB's balance sheet.

First of all, it is important to note that the SNB's high levels of foreign currency investments are not net wealth. On the contrary, they have been financed by newly created Swiss francs, through money creation. The SNB's foreign currency investments therefore differ fundamentally from the assets of foreign sovereign wealth funds, which have been financed, for example, through oil exports or fiscal surpluses. In order to set up a sovereign wealth fund, the public sector would have to buy the foreign currency investments from the SNB, using funds borrowed on the capital markets. As far as the SNB is concerned, the sale of foreign currency investments would lead to a corresponding reduction in the monetary base. In the absence of any offsetting measures by the SNB, monetary policy would become more restrictive, which would depress prices and economic trends.

A sovereign wealth fund would also need to invest exclusively abroad and, as a result, would be exposed to foreign currency risk. Even if it were to hedge its investments only partially against the Swiss franc, this would give rise to additional demand for Swiss francs which is undesirable from a monetary policy perspective. Furthermore, any foreign exchange transactions against Swiss francs conducted by a sovereign wealth fund, including switching from foreign investments to Swiss franc investments or converting foreign-earned income into Swiss francs, would have the same effect. A sovereign wealth fund would consequently be unable to reduce its currency risk without increasing upward pressure on the Swiss franc. Rather than eliminate balance sheet risks, a sovereign wealth fund would simply transfer them to another public sector institution. Switzerland's balance sheet risks would therefore persist. At the same time, a transfer of foreign currency investments would tend towards restricting the SNB's room for manoeuvre in monetary policy and hamper its implementation. It is essential that the SNB is always in the position to align the size and composition of its balance sheet to monetary policy needs.

For years now, the SNB has had and made full use of a broad investment universe for the management of its foreign currency holdings. It is able to diversify its portfolio in different currencies and investment categories, and to invest substantial amounts in foreign shares and corporate bonds in particular. For instance, it holds shares in companies which together account for more than 95% of global market capitalisation. An expansion into investment categories in which the SNB currently does not invest would be an option for a sovereign wealth fund. However, a sovereign wealth fund investing in the capital markets would basically be subject to the same investment policy conditions as the SNB. The scope for expansion would be limited and would offer few opportunities for improving the risk/return profile. If the sovereign wealth fund wanted to target higher returns, it would have to accept considerable additional risk (through higher equity exposure, for example).

5.2 INVESTMENT AND RISK CONTROL PROCESS

Bank Council and Risk Committee responsibilities

The NBA defines the SNB's responsibilities and describes in detail its mandate with regard to asset management. The Bank Council is charged with the integral oversight of the investment and risk control process. Its role is to assess the underlying principles and monitor compliance with them. The Risk Committee – which is composed of three Bank Council members – supports the Bank Council in this task. It monitors risk management, in particular, and evaluates the governance of the investment process. Internal risk management reporting is addressed to the Governing Board and the Risk Committee.

Governing Board responsibilities

The Governing Board defines the principles of the investment policy. In particular, it sets out the requirements with regard to the security, liquidity and return of the investments, as well as the eligible currencies, investment categories, instruments and borrower categories. The Governing Board decides on the composition of the currency reserves and other assets, and defines the foreign currency investment strategy. The investment strategy covers the allocation of foreign currency investments to different investment categories and currencies, and determines the scope for active management at operational level.

Investment Committee and Portfolio Management responsibilities

The Investment Committee, an internal body, decides on the tactical allocation of the foreign currency investments at operational level. Within the strategically prescribed ranges, it adjusts currency weightings, bond durations and allocations to the different investment categories, to take account of changed market conditions. Portfolio Management administers the individual portfolios. Portfolios from the Asia-Pacific region are managed by internal SNB portfolio managers in the Singapore branch office, which was opened on 1 July 2013. Its activities, especially trade and portfolio management, are fully integrated into the investment and risk control process in Switzerland.

The majority of assets are managed internally. External asset managers are used for benchmarking the internal portfolio management and to obtain efficient access to new investment categories. At operational level, the responsibilities for monetary policy and investment policy are organised in such a way as to avoid conflicts of interest.

Risk Management responsibilities

The most important element for managing absolute risk is broad diversification of investments. Risk is managed and mitigated by means of a system of reference portfolios (benchmarks), guidelines and limits. All relevant financial risks on investments are identified, assessed and monitored continuously. Risk measurement is based on standard risk indicators and procedures. In addition to these procedures, sensitivity analyses and stress tests are carried out on a regular basis.

The SNB's comparatively long-term investment horizon is taken into account in all of these risk analyses. To assess and manage credit risk, information from major rating agencies, market indicators and in-house analyses are used. Credit limits are set on the basis of this information, and adjusted whenever the assessment of counterparty risk changes. To mitigate counterparty risk, the replacement values of derivatives are usually collateralised by securities. Concentration and reputational risks are also factored in when determining risk limits. Risk indicators are aggregated across all investments. Compliance with the guidelines and limits is monitored daily. The risk analyses and the results of risk management activities are submitted to the Governing Board and the Bank Council's Risk Committee in quarterly risk reports. In addition, the annual risk management report is submitted to the Bank Council.

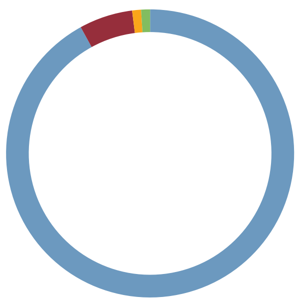
5.3 CHANGES IN AND BREAKDOWN OF ASSETS

Changes in assets

At the end of 2015, the SNB's assets amounted to CHF 640 billion, which was CHF 79 billion higher than one year earlier. They consisted almost exclusively of currency reserves. In addition, a Swiss franc bond portfolio amounting to CHF 4 billion was held.

BREAKDOWN OF SNB ASSETS

In percent



Foreign currency investments **92**
Gold holdings **6**
Swiss franc securities **1**
Sundry **1**

Total: CHF 640 billion
At year-end 2015

Currency reserves

The currency reserves increased by CHF 61 billion to CHF 603 billion year-on-year. Exchange rate-related losses and the decline in the gold price lowered the value of the currency reserves. Inflows from foreign currency purchases clearly exceeded these losses, however. Foreign exchange reserves rose by CHF 66 billion in the space of a year. They consist of foreign currency investments minus associated foreign currency liabilities (mainly from repo transactions).

COMPOSITION OF CURRENCY RESERVES

In CHF billions

	31.12.2015	31.12.2014
Gold reserves	35	40
Foreign currency investments	593	510
Less: associated liabilities	–33	–15
Derivatives (replacement values, net)	0	0
Total foreign exchange reserves	561	495
Reserve position in the IMF	2	2
International payment instruments	5	4
Total currency reserves	**603**	**541**

Bond portfolios

At the end of 2015, the bond portfolios in the foreign currency investments contained government and quasi-government bonds as well as bonds issued by supranational organisations, local authorities, financial institutions (mainly covered bonds and comparable securities) and other companies. The average duration of the portfolio was just over four years.

Equity portfolios

The equity portfolios comprised shares of mid-cap and large-cap companies and, to a lesser extent, shares of small-cap companies in advanced economies. In 2015, a portfolio comprising shares of companies in emerging economies was set up as well. The SNB does not engage in stock picking; it only invests passively. Thus, equities are managed according to a set of rules based on a strategic benchmark comprising a combination of equity indices in various markets and currencies. This results in a globally well-diversified equity portfolio of over 6,700 individual shares (around 1,500 shares of mid-cap and large-cap companies as well as roughly 4,400 shares of small-cap companies in advanced economies, and approximately 800 shares of companies in emerging economies). Replicating indices ensures that there is no underweighting or overweighting at operational level in individual sectors or companies and that the SNB thus operates as neutrally as possible in these markets.

No investments are made in shares of international mid-cap and large-cap banks and bank-like institutions, in order to avoid possible conflicts of interest. In addition, the SNB does not purchase shares of companies which produce internationally banned weapons, seriously violate fundamental human rights or systematically cause severe environmental damage. To identify the relevant companies, it relies on recommendations of external companies specialising in such analyses.

Swiss franc bonds

The passively managed Swiss franc bond portfolio amounted to CHF 4 billion and primarily contained bonds issued by the Confederation, the cantons and foreign borrowers, as well as Swiss Pfandbriefe. The average duration of the portfolio was just under eight years.

BREAKDOWN OF FOREIGN EXCHANGE RESERVES AND SWISS FRANC BOND INVESTMENTS AT YEAR-END

	2015 Foreign currency investments	2015 CHF bond investments	2014 Foreign currency investments	2014 CHF bond investments
Currency allocation (in percent, incl. derivatives positions)				
CHF		100		100
EUR	42		46	
USD	32		29	
JPY	8		8	
GBP	7		6	
CAD	3		4	
Other[1]	7		7	
Investment categories (in percent)				
Investments with banks	0	–	0	–
Government bonds[2]	71	41	73	40
Other bonds[3]	11	59	12	60
Shares	18	–	15	–
Breakdown of fixed income investments (in percent)				
AAA-rated[4]	61	72	63	72
AA-rated[4]	24	27	22	27
A-rated[4]	11	1	10	1
Other	4	–	5	–
Investment duration (years)	4,1	7,7	4.0	7.4

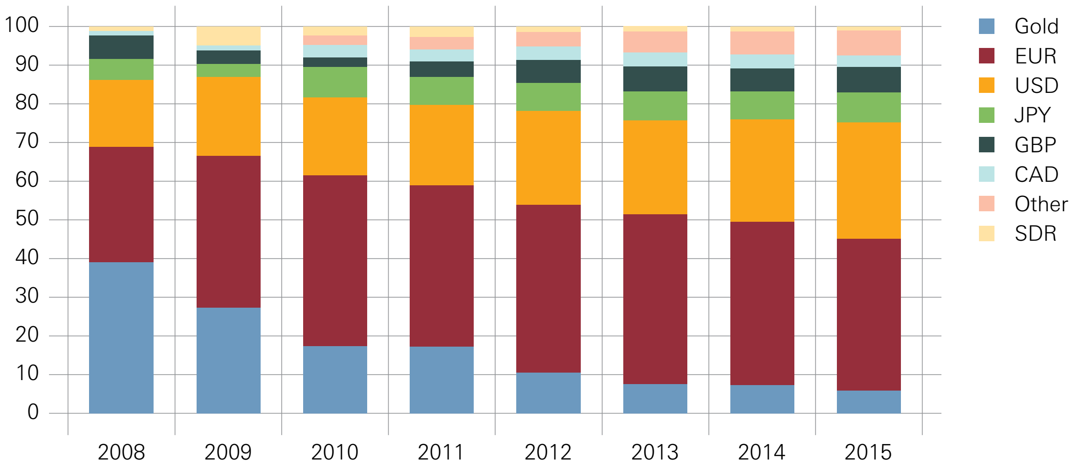
1 Mainly AUD, CNY, DKK, SEK, SGD, KRW plus small holdings of other currencies in the equity portfolios.
2 Government bonds in own currency, deposits with central banks and the BIS; in the case of Swiss franc investments, also bonds issued by Swiss cantons and municipalities.
3 Government bonds in foreign currency as well as bonds issued by foreign local authorities and supranational organisations, covered bonds, corporate bonds, etc.
4 Average rating, calculated from the ratings of major credit rating agencies.

Changes in asset structure

The structure of the foreign exchange reserves and Swiss franc bonds changed slightly year-on-year. The principles of currency and asset category diversification continued to be observed. Compared with the previous year, the euro share declined in favour of the shares of the US dollar and pound sterling. As a result of the restructuring of portfolios and rating downgrades of individual borrowers, the proportion of AA-rated investments within the foreign exchange reserves increased slightly at the expense of AAA-rated bonds. The share of equities in foreign exchange reserves increased from 15% to 18%.

BREAKDOWN OF CURRENCY RESERVES AT YEAR-END

In percent, excluding investments and liabilities from foreign exchange swaps against CHF



Source: SNB

5.4 ASSET RISK

Risk profile

The risk profile of assets is determined by the currency reserves. The main risk to the currency reserves is market risk, in particular risks related to exchange rates, the gold price, share prices and interest rates. In addition, there is liquidity risk as well as credit and country risks, although these are smaller than market risk. The contribution of Swiss franc bonds to total risk is negligible.

Market risk

Exchange rates are the most important risk factor for the currency reserves. As currency risk is not hedged against Swiss francs, even minor changes in the Swiss franc exchange rates lead to substantial fluctuations in investment income, and thus in the SNB's capital. In addition to currency risk, fluctuations in the gold price and stock prices as well as interest rate risk are relevant as well. Currency risk, share price risk and interest rate risk are limited through the specification of benchmarks and management guidelines. Various means, including the use of derivative financial instruments such as interest rate swaps, stock index futures and interest rate futures, are used to control these risks. To manage currency exposure within foreign currency investments, foreign exchange derivatives can also be used.

As a matter of principle, the SNB does not hedge currency risk against the Swiss franc, as hedging would have an undesirable impact on monetary policy. Hedging operations, for example selling foreign exchange forwards against Swiss francs, would create additional demand and increase upward pressure on the Swiss franc. Therefore, hedging would de facto have the same effect as a foreign exchange market intervention to strengthen the Swiss franc. For these reasons, currency risk must be accepted as an inherent component of currency reserves.

Liquidity risk

The SNB's liquidity risk arises from the possibility that, should investments in foreign currencies need to be sold, such sales could be effected only partially or after considerable price concessions, or may not be possible at all. By holding a large number of the most liquid government bonds in the major currencies – euros and US dollars – the SNB continued to ensure a high level of liquidity in its foreign currency reserves in 2015. Liquidity risk is reassessed periodically.

Credit risk

Credit risk stems from the possibility that counterparties or issuers of securities do not meet their obligations. Such risks are present in the case of bonds issued by all borrower categories. The SNB holds bonds issued by public and supranational borrowers, covered bonds and similar instruments as well as corporate bonds as part of its currency reserves. For issuers of bonds, the SNB requires a minimum rating of investment grade. Exposure to individual issuers is limited by means of concentration limits. Credit risk arising from non-tradable instruments with respect to banks was very low. Replacement values of derivatives were collateralised, in accordance with the ISDA (International Swaps and Derivatives Association) agreements with counterparties. Since May 2014, the SNB has been executing most of its interest rate swaps via a central counterparty. On the one hand, this facilitates netting of offsetting positions. On the other, efficiency gains are made in the daily management of collateral.

Investments mainly took the form of government bonds; the bulk of these are in highly liquid bonds issued by European countries and by the US. At the end of the year, outstanding balances at central banks and the Bank for International Settlements amounted to just over CHF 7 billion. In all, over 85% of bonds were rated AA or higher.

Country risk

Country risk arises from the possibility that a country may hinder payments by borrowers domiciled in its sovereign territory or block the right to dispose of assets held there. In order to avoid entering into any unbalanced country risk, the SNB endeavours to distribute assets among a number of different depositories and countries. Gold holdings are stored according to this principle as well. In choosing a location, attention is paid to both appropriate regional diversification and easy market access. Of the 1,040 tonnes of gold, approximately 70% is held in Switzerland, some 20% at the Bank of England, and roughly 10% at the Bank of Canada. Decentralised storage of gold holdings in Switzerland and abroad ensures that the SNB has access to its gold reserves even in the event of a crisis.

Balance sheet and equity

The SNB's loss-absorbing capital is composed mainly of the provisions for currency reserves and the distribution reserve. Equity is built up from retained profits. The distribution reserve serves as a buffer to help smooth the SNB's annual profit distribution to the Confederation and the cantons. In accordance with the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB of 21 November 2011, the regular annual sum paid out to the Confederation and the cantons amounts to CHF 1 billion. A distribution can be carried out provided that the distribution reserve is positive. This condition was fulfilled in 2015 as the distribution reserve from previous years exceeded the negative annual result of 2015. After allocation to the provisions for currency reserves and the distribution for the 2015 financial year, the SNB's equity amounted to around CHF 60 billion (CHF 58 billion to provisions for currency reserves and CHF 2 billion to distribution reserve), with a balance sheet total of CHF 640 billion.

Agreement on profit distribution

To ensure that distribution flows are kept steady in the medium term, the FDF and the SNB establish the key distribution goals in an agreement. The current agreement that has been in force since 2011 expired in 2015. A new agreement will be concluded between the FDF and the SNB in 2016.

5.5 INVESTMENT PERFORMANCE

Return on investments

Investment performance is calculated for foreign currency investments, gold and Swiss franc bonds.

In 2015, the overall return on currency reserves was –4.7%. Returns on both foreign currency investments (–4.4%) and gold (–10.5%) were negative. In the case of foreign currency investments, returns on bonds and equities in local currency were positive. They were, however, cancelled out by exchange rate losses, leading to a loss measured in terms of Swiss francs. The reason for this was the appreciation of the Swiss franc against all investment currencies, with the exception of the US dollar and the yen.

RETURN ON INVESTMENTS

Cumulated, time-weighted daily returns in percent

	Total	Gold	Currency reserves[1] Foreign currency investments Total	Exchange rate return	Return in local currency	CHF bonds Total
2002	1.4	3.4	0.5	–9.1	10.5	10.0
2003	5.0	9.1	3.0	–0.4	3.4	1.4
2004	0.5	–3.1	2.3	–3.2	5.7	3.8
2005	18.9	35.0	10.8	5.2	5.5	3.1
2006	6.9	15.0	1.9	–1.1	3.0	0.0
2007	10.1	21.6	3.0	–1.3	4.4	–0.1
2008	–6.0	–2.2	–8.7	–8.9	0.3	5.4
2009	11.0	23.8	4.8	0.4	4.4	4.3
2010	–5.4	15.3	–10.1	–13.4	3.8	3.7
2011	4.9	12.3	3.1	–0.8	4.0	5.6
2012	2.3	2.8	2.2	–2.3	4.7	3.7
2013	–2.5	–30.0	0.7	–2.4	3.2	–2.2
2014	8.0	11.4	7.8	2.6	5.1	7.9
2015	–4.7	–10.5	–4.4	–5.6	1.3	2.3

1 In this table, they correspond to gold and foreign currency investments, excluding IMF Special Drawing Rights.

6 Contribution to financial system stability

6.1 BACKGROUND

Mandate

Art. 5 para. 2 (e) of the National Bank Act (NBA) confers upon the Swiss National Bank (SNB) the mandate of contributing to the stability of the financial system. Financial stability means that financial system participants, i.e. financial intermediaries (especially banks) and financial market infrastructures, can perform their functions and are able to withstand potential disturbances. It is an important prerequisite for economic development and effective monetary policy implementation.

In the area of financial stability, the SNB fulfils this mandate by analysing sources of risk to the financial system and identifying areas where action may be needed. In addition, it helps to create and implement a regulatory framework for the financial sector, and oversees systemically important financial market infrastructures.

Focus on crisis prevention

In recent years, there has been a shift in the focus of central banks' activities in the area of financial stability, away from crisis management and towards crisis prevention. To counteract the risks that threaten the stability of the financial system, the SNB has had two macroprudential regulatory powers at its disposal since 2012, namely the authority to designate banks as systemically important and the authority to propose the activation, adjustment or deactivation of the countercyclical capital buffer (CCB). While the designation of systemically important banks is focused on combating structural risks, the CCB is geared towards addressing cyclical risks.

With regard to crisis management, the SNB fulfils its mandate by acting as lender of last resort where necessary. It provides emergency liquidity assistance to domestic banks whose insolvency would have a severe impact on financial system stability in cases where such banks are no longer able to refinance themselves on the market (cf. chapter 2.6).

Collaboration with FINMA, FDF and foreign authorities

At national level, the SNB works closely with the Swiss Financial Market Supervisory Authority (FINMA) and the Federal Department of Finance (FDF) to create a regulatory framework that promotes stability. The SNB addresses the issue mainly from a systemic perspective, and its focus is therefore on the macroprudential aspects of regulation. For its part, FINMA is responsible, among other things, for the monitoring of individual institutions, i.e. microprudential supervision.

At international level, the SNB participates in the design of the regulatory framework through its membership of the Financial Stability Board, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructures (cf. chapters 7.2.2 and 7.2.3). In the oversight of cross-border financial market infrastructures, the SNB liaises closely with FINMA and with foreign authorities.

6.2 MAIN ACTIVITIES

Amendment and implementation of 'too big to fail' regulations

As envisaged by the Banking Act, the Federal Council assessed the Swiss 'too big to fail' regulations at the beginning of 2015 and requested appropriate amendments. The SNB participated in the working group which was convened for the purpose and led by the FDF. The amendments involve the recalibration of requirements on capital and loss-absorbing instruments in the event of recovery or resolution. In addition, mandatory deadlines are to be set for systemically important banks to finalise the emergency plans for their Swiss operations. These amendments are a key step in the overall process of resolving the 'too big to fail' issue in Switzerland.

As part of the implementation of the existing 'too big to fail' regulations, in June 2015 the SNB designated PostFinance Ltd as systemically important in accordance with the Banking Act.

Monitoring of mortgage and real estate markets

Against the background of exceptionally low interest rates, the SNB continued to monitor mortgage and real estate market developments closely. In 2015, price momentum in the owner-occupied residential segment slowed further, despite the very low interest rates. However, imbalances were unchanged at a high level. The SNB decided not to request that the Federal Council adjust the relevant sectoral CCB. In contrast to the owner-occupied residential segment, price momentum in the residential investment property segment remained strong in 2015.

Implementation of revised minimum requirements for FMIs

In its oversight of systemically important financial market infrastructures (FMIs), the SNB once again focused on the implementation of the minimum requirements, which were revised in 2013. In particular, it commented on the FMI operators' recovery plans, which had been drawn up for the first time. It also assessed the strategies drawn up by SIX x-clear Ltd and SIX SIS Ltd on ensuring compliance with liquidity management requirements.

6.3 MONITORING THE FINANCIAL SYSTEM

Financial Stability Report

Within the context of monitoring the financial system, the SNB analyses developments and risks in the Swiss banking sector. Its assessment is published, in particular, in its annual *Financial Stability Report.*

Domestically focused banks

The SNB reported that the exposure of domestically focused commercial banks to the mortgage and residential real estate markets had risen once again. At the same time, it noted that the capital situation at these banks remained unchanged, despite the pressure on margins from the exceptionally low interest rate environment. Risk-weighted capital ratios continued to be well above the regulatory minimum requirements. The importance of these capital surpluses relative to the regulatory minima was underlined by means of stress tests. In addition, the SNB pointed out that the further decline in money and capital market interest rates since the monetary policy decision of January 2015 carried the risk of a renewed increase in imbalances on the Swiss mortgage and residential real estate markets over the medium term.

Big banks

The SNB observed that the two globally active Swiss big banks had improved their capital situation further. It recommended that the big banks' efforts to increase resilience continue undiminished, especially with regard to the leverage ratio (unweighted capital ratio). The reasons for this recommendation were, first, the loss potential for both big banks, which continued to be substantial. Second, the SNB noted that, while big banks' risk-weighted capital ratios were above the average for large globally active banks, the same could not yet be said for their leverage ratios. Strengthening of leverage ratios – and hence resilience – should be achieved through the measures approved by the Federal Council in October 2015 in the context of the revision of the 'too big to fail' regulations.

Concerns and measures with regard to RWA

Risk-weighted assets (RWA) play a key role in the capital regulation of banks. In recent years, markets' and authorities' confidence in RWA calculated according to banks' internal models has steadily declined. To address these concerns, various regulatory reform initiatives have been launched at international and national level.

At international level, the Basel Committee on Banking Supervision is planning to introduce, among other things, floors for internally modelled RWA based on the revised standardised approach (cf. chapter 7.2.2). At national level, FINMA has introduced an initial set of corrective measures, imposing institution-specific multipliers for certain portfolios. In addition, as part of the revision of the 'too big to fail' regulations, the Federal Council introduced a series of measures underscoring the complementarity and interplay between risk-weighted requirements and leverage ratio requirements (cf. chapter 6.5.2). The much higher leverage ratio requirement serves as a backstop; this takes into account the fact that model-based RWA do not always capture all risks accurately.

FINMA has, moreover, called on the big banks to disclose the differences between calculations using the model-based and standardised approaches. The SNB supports FINMA's efforts as, in its view, the big banks' transparency on RWA still needs to be increased. At international level, the aforementioned Basel Committee reforms will likewise result in higher requirements in terms of bank transparency.

6.4 RISKS AND MEASURES RELATING TO MORTGAGE AND REAL ESTATE MARKETS

Developments and measures up to end-2014

Imbalances build up on the mortgage and real estate markets when mortgage volumes or residential property prices exhibit stronger growth than fundamentals, such as income or rents, over a long period of time. Owing to the strong growth in lending volumes and real estate prices, which has been observed for a number of years, by 2012 imbalances had already become so large that, in the SNB's view, they posed a threat to the stability of the banking system and hence to the Swiss economy.

In view of these risks, between 2012 and 2014 measures were implemented by various parties. For instance, the self-regulation rules for banks in the area of mortgage lending were revised and, at the proposal of the SNB, the CCB on mortgage lending to finance residential real estate in Switzerland was first activated, and then increased. In addition, the risk weights specified in the Capital Adequacy Ordinance for mortgage loans with a high loan-to-value ratio were raised. These measures contributed to ensuring that, despite low interest rates, there was scarcely any increase in imbalances on the mortgage and real estate markets over 2014 as a whole.

Strengthening the capital base

In previous years, a number of banks had introduced measures to strengthen their capital base. This was partly in response to the activation and increase of the CCB. As long as the CCB remains activated, it will continue to impact on the resilience of the banking sector.

Imbalances in owner-occupied residential segment unchanged

Despite the exceptionally low interest rates, in 2015 price momentum in the owner-occupied residential segment of the Swiss real estate market, as well as mortgage lending growth, slowed once again. However, the imbalances on these markets remained largely unchanged at a high level, since key fundamental factors such as income also exhibited weak growth.

No slowdown in residential investment property segment

In contrast to the owner-occupied segment, price momentum in the residential investment property segment maintained its strong pace in 2015. This market segment was particularly affected by the additional demand from investors in search of yield in an environment of exceptionally low interest rates. Moreover, the measures taken to date have mainly targeted the owner-occupied residential segment.

No proposal for CCB adjustment

In 2015, following an in-depth analysis, the SNB decided not to submit a proposal to the Federal Council for an adjustment of the CCB on mortgage lending to finance residential property. The CCB thus remained unchanged, at 2% of the corresponding risk-weighted positions. However, in light of banks' persistently high risk appetite and the exceptionally low interest rates, the SNB warned that the situation on the mortgage and real estate markets could deteriorate again. It also emphasised that additional measures – especially in the residential investment property segment – might be required if the risks on the Swiss mortgage and real estate markets rose further.

6.5 ADDITIONAL MEASURES TO STRENGTHEN FINANCIAL STABILITY

6.5.1 IMPLEMENTATION OF 'TOO BIG TO FAIL' REGULATIONS

Purpose of 'too big to fail' regulations

The 'too big to fail' regulations are designed to reduce the risks to the stability of the Swiss financial system emanating from systemically important banks in particular; as such, the regulations complement the generally applicable banking legislation. In addition, the 'too big to fail' regulations aim to ensure that the economically important functions of these banks can be maintained in the event of insolvency problems, without the need for public sector support. The Banking Act envisages a division of the relevant responsibilities between the SNB, FINMA and the systemically important banks.

Decrees on systemic importance

The Banking Act gives the SNB the authority to designate banks and bank functions as systemically important, following consultation with FINMA. A bank is considered to be systemically important if it performs functions in domestic loan and deposit-taking business which are essential to the Swiss economy and cannot be substituted at short notice. Other criteria such as size, risk profile and interconnectedness are also taken into consideration when deciding on systemic importance. The SNB carries out the requisite assessment as part of a formal process culminating in the issuance of a decree.

In June 2015, the SNB issued a decree designating PostFinance Ltd as a financial group of systemic importance in accordance with the Banking Act. The decision was prompted by PostFinance's high market share in domestic deposit-taking business and its significance in payment operations. The SNB had already issued decrees between 2012 and 2014, designating Credit Suisse Group, UBS, Zürcher Kantonalbank and the Raiffeisen Group as systemically important.

Special requirements

Systemically important banks must meet special requirements as regards capital, liquidity, risk diversification and emergency planning. The Banking Act gives FINMA the responsibility for defining the requirements on capital, liquidity and risk diversification by decree, in consultation with the SNB. In addition, FINMA informs the public about the general content of the decree and compliance with it. In turn, the systemically important bank must draw up an emergency plan and demonstrate that this plan meets the legal requirements. If the bank fails to demonstrate compliance, FINMA will order that appropriate measures be taken.

6.5.2 REVIEW AND AMENDMENT OF 'TOO BIG TO FAIL' REGULATIONS

Background

The Banking Act stipulates that the Federal Council regularly reviews the status of Swiss 'too big to fail' regulations compared to international standards and their implementation. In 2014, the group of experts on the further development of the financial market strategy conducted such a review, among other things, and released its report in December of that year. Based on that report, on 18 February 2015, the Federal Council finalised its evaluation report on the 'too big to fail' regulations and submitted it to parliament. It identified a need for action to further strengthen resilience and to improve the resolvability of systemically important banks. The Federal Council instructed the FDF to submit proposals on the requisite legislative amendments. The SNB was represented in the FDF working group responsible for drawing up the proposals. On 21 October, the Federal Council approved the working group's proposed measures to improve the 'too big to fail' regulations; the proposals have been in consultation since December 2015.

Measures to improve 'too big to fail' regulations

The measures to improve the 'too big to fail' regulations focus on three areas. First, going-concern capital requirements have been strengthened, above all with regard to the leverage ratio. This puts Switzerland back among the international leaders in terms of capital requirements. The SNB considers this essential since the 'too big to fail' issue is particularly pronounced in Switzerland. Second, requirements for loss-absorbing instruments in the event of recovery or resolution have been substantially increased for both big banks (gone-concern loss-absorbing instruments; cf. chapter 7.2.3). For domestically focused systemically important banks, gone-concern requirements will be strengthened at a later date. Third, mandatory deadlines will be set for systemically important banks to finalise the emergency plans for their Swiss operations; plans which should ensure the uninterrupted continuation of systemically important functions in the event of the threat of insolvency. This will create the prerequisites for improved resolvability.

The three sets of measures to improve the 'too big to fail' regulations form a complete package. Each area is of great importance, since it is only through a balanced interplay of the different measures that a resolution of the 'too big to fail' issue can be achieved. Higher going-concern requirements, while reducing the probability of a bank becoming insolvent, cannot provide absolute certainty. This is where higher gone-concern requirements and improved resolvability come into play. They are aimed at ensuring that, in the event of insolvency problems, a bank can be recapitalised and restructured without state assistance. This represents a decisive step in the overall process of resolving the 'too big to fail' issue. Only once the measures implemented convince both the authorities and the markets that there is no longer any need for the state to rescue a systemically important bank in crisis, can the 'too big to fail' issue be regarded as resolved.

Higher gone-concern requirements and improved resolvability

The next evaluation report on the Swiss 'too big to fail' regulations is due to be approved by the Federal Council by February 2017, before being submitted to parliament.

6.6 OVERSIGHT OF FINANCIAL MARKET INFRASTRUCTURES

6.6.1 BACKGROUND

Mandate

The NBA (art. 5 and arts. 19–21) requires the SNB to oversee systemically important central counterparties, central securities depositories and payment systems in accordance with art. 22 of the Financial Market Infrastructure Act (FMIA). To this end, the SNB cooperates with FINMA as well as with foreign supervisory and oversight authorities. The National Bank Ordinance (NBO) sets out the details of the oversight of systemically important FMIs.

Focus on systemically important FMIs

At present, the FMIs that could harbour risks for the stability of the financial system include the central counterparty SIX x-clear, the central securities depository SIX SIS and the Swiss Interbank Clearing (SIC) payment system. These are operated by SIX x-clear Ltd, SIX SIS Ltd and SIX Interbank Clearing Ltd, which are subsidiaries of SIX Group Ltd.

Other systems that are important for the stability of the Swiss financial system are the Continuous Linked Settlement (CLS) foreign exchange settlement system and the central counterparties LCH.Clearnet Ltd (LCH) and Eurex Clearing. The operators of these FMIs are domiciled in the US, the UK and Germany.

Cooperation with FINMA ...

SIX x-clear and SIX SIS both hold banking licences and are subject to prudential supervision by FINMA as well as to oversight by the SNB. Although FINMA and the SNB exercise their supervisory and oversight powers separately, they coordinate their activities. Oversight of SIC is exclusively the SNB's responsibility.

... and with foreign authorities

The SNB cooperates with foreign authorities in the oversight of Swiss FMIs with cross-border activities. To regulate the cooperation and exchange of information in the supervision and oversight of SIX x-clear, in 2015 the SNB signed two memoranda of understanding (MoUs). The MoU with the Norwegian central bank and Norway's financial market supervisory authority was necessary following SIX x-clear's acquisition of the central counterparty Oslo Clearing ASA, and its legal integration with effect from 1 May 2015. The MoU with the European Securities and Markets Authority (ESMA) is a prerequisite for ESMA to recognise SIX x-clear as a non-EU central counterparty. Prior to this, the European Commission had assessed the regulation and supervision of central counterparties in Switzerland as being equivalent to those in the EU.

For the oversight of FMIs domiciled abroad, namely CLS, Eurex Clearing and LCH, the SNB cooperates with the relevant foreign authorities. The SNB also participates in the oversight of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial messages.

Amendments to NBO to reflect new legal basis

On 19 June 2015, parliament passed the FMIA, as well as amendments to arts. 19–21 NBA, which form the basis for the oversight of systemically important FMIs by the SNB. To ensure compatibility with the new legislative framework, the SNB revised the implementing provisions in arts. 19–36 NBO. The new and revised provisions entered into force on 1 January 2016.

New legal basis for oversight of financial market infrastructures

The Financial Market Infrastructure Act (FMIA) creates a new regulatory and supervisory framework for FMIs in Switzerland. Previously, some FMIs required FINMA authorisation, and this requirement has now been extended to cover all FMIs. Central counterparties and central securities depositories will no longer be licensed as banks, but will instead receive a licence tailored to their functions. Payment systems only require a licence if this is necessary to ensure the smooth functioning of the financial market or the protection of financial market participants, and if the payment system is not operated by a bank. FMIs operated by or on behalf of the SNB are exempt from the licensing requirement. Such an exemption applies, for example, to the SIC payment system, which is operated on behalf of the SNB.

Under the FMIA, the SNB continues to have responsibility for designating systemically important FMIs and their systemically important business processes. Central counterparties, central securities depositories and payment systems may qualify as systemically important FMIs. The criteria for designating systemically important FMIs and their systemically important business processes remain unchanged.

For purposes of systemic protection, the SNB also retains the power to impose special requirements for systemically important FMIs, above and beyond the licensing criteria and obligations set out in the FMIA or its associated ordinance, the Financial Market Infrastructure Ordinance (FMIO). The special requirements, which must take account of recognised international standards, can refer to contractual provisions, the means of payment used, risk management, business continuity and IT systems.

To avoid duplications of effort during day-to-day supervision and oversight of systemically important FMIs, FINMA monitors compliance with licensing criteria and obligations, unless compliance is ensured through the monitoring of the special requirements by the SNB. If the special requirements go beyond the licensing criteria and obligations, the SNB is responsible for monitoring compliance with the requisite requirements.

The recovery plans, which the FMIs are required to draw up, must now be approved by FINMA following consultation with the SNB. In addition, the SNB will be consulted on resolution plans. These contain the details of how a systemically important FMI can be recovered or wound down, if so ordered by FINMA.

6.6.2 MAIN FOCUS OF OVERSIGHT

Assessment of compliance with minimum requirements

In 2015, the SNB assessed compliance by the operators of systemically important FMIs with the minimum requirements specified in the NBO. It noted that SIX x-clear, SIX SIS and SIX Interbank Clearing had introduced a number of measures to meet the minimum requirements, which were increased in 2013. They were appropriately structured and had adequate internal control systems. The FMIs had appropriate rules and procedures in place and satisfied the strict requirements with respect to information and IT security. In addition, the operators of these FMIs increased their transparency vis-à-vis participants and the general public.

In particular, the SNB assessed the recovery plans, which had been drawn up by the operators of the systemically important FMIs in the previous year for the first time. In its assessment, the SNB pointed out, among other things, that the operators should take account of more extreme stress scenarios when further developing these plans. Another area of focus was the evaluation of strategies developed by SIX x-clear and SIX SIS to ensure compliance with liquidity risk management requirements. The SNB noted that, in general, the strategies were appropriate and recommended that they be implemented without delay.

Assessment of outsourcing of key functions

To assess the information and IT security of the FMIs, the SNB relies mainly on external auditors. In 2015, the audits – whose scope and depth are determined by the SNB – concentrated on the outsourcing of key functions in the area of information security. The audits showed that, on the whole, the processes and controls used by the FMI operators are sufficient to meet the requirements for outsourcing.

Designation of systemically important business processes

The NBO stipulates that the SNB determines which business processes at FMIs are systemically important, following consultation with FINMA. Such business processes are subject to more stringent minimum requirements. In 2015, the SNB continued with the legal process for determining systemically important business processes at SIX Interbank Clearing, SIX SIS and SIX x-clear.

Other focal points

The SNB maintains an intensive dialogue with the operators of the FMIs subject to oversight, in order to ensure that projects impacting the business activities or the risk profile, and thereby the fulfilment of the minimum requirements, are commented on at an early stage.

SIX SIS established direct access to the European securities settlement platform TARGET2-Securities (T2S), which went into operation in June 2015. The SNB, which has been monitoring the preparatory work by SIX SIS over the past few years, concluded that the company fulfilled the operational and legal prerequisites for participating in T2S.

At the beginning of May, the central counterparty Oslo Clearing ASA was legally integrated into SIX x-clear. The SNB supported SIX x-clear in the implementation of measures aimed at ensuring continued full compliance with regulatory requirements following the integration. In addition, the SNB collaborated with authorities in the UK and the Netherlands in efforts to ensure that the central counterparties LCH, EuroCCP and SIX x-clear reviewed and adjusted the collateralisation of their bilateral credit exposures. Bilateral credit exposures arise out of the interoperability agreed between these central counterparties. This allows the participants of one central counterparty to clear, via that central counterparty, transactions which they have concluded with the participants of another central counterparty.

7
Involvement in international monetary cooperation

7.1 BACKGROUND

Mandate

The Swiss National Bank (SNB) participates in international monetary cooperation. To this end, it works jointly with the Federal Council in accordance with the relevant federal legislation (art. 5 para. 3 of the National Bank Act (NBA)). The objective of international monetary cooperation is to promote the functioning and stability of the international monetary and financial system and help overcome crises. As a globally integrated economy with a major financial centre and its own currency, Switzerland derives particular benefit from a stable international monetary and financial system.

Forms of international monetary cooperation

The SNB is involved in international monetary cooperation through its participation in multilateral institutions such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). Participation in the IMF, FSB and OECD is in cooperation with the Confederation and, in the case of the FSB, also with the Swiss Financial Market Supervisory Authority (FINMA). Furthermore, the SNB cooperates with the Confederation in providing international monetary assistance. Finally, it cooperates on a bilateral level with other central banks and authorities. As part of this cooperation, the SNB provides technical assistance to the central banks from the group of countries with which Switzerland forms a constituency in the IMF.

7.2 MULTILATERAL COOPERATION

7.2.1 INTERNATIONAL MONETARY FUND

Participation in the IMF

The SNB contributes to IMF activities and decisions in collaboration with the Confederation. Switzerland exercises its influence through its representation on the Board of Governors, in the International Monetary and Financial Committee (IMFC) and on the Executive Board of the IMF.

Support to Ukraine

As in 2014, the bulk of IMF lending in 2015 went to Ukraine. The escalation of the armed conflict in eastern Ukraine and the ensuing loss of confidence made it increasingly difficult for the government to stabilise the economy. It became clear that the existing Stand-By Arrangement (SBA) would not suffice to meet the country's external financing needs. The IMF reacted in March 2015 by transforming the SBA into an Extended Fund Facility. Together with other international assistance (cf. chapter 7.3.1) and a debt-restructuring package, the extended fund facility arrangement meets the country's financing requirements until 2018.

IMF commitment in Greece

Greece remained the IMF's largest borrower country. It fell into temporary arrears with the IMF in July 2015. Although this did not pose a threat to its financial stability, the IMF subsequently decided not to take part in a further international rescue package, and made any future assistance conditional on Greece's debt sustainability.

Change in lending policy

Against the backdrop of an ever larger and more heterogeneous group of official creditors, the IMF adjusted its lending policy. In future the IMF will also be able to grant loans to crisis-stricken countries in arrears to official creditors. This will help it counter the risk of an official creditor blocking IMF lending to a crisis country for political reasons. Lending in such a case is, however, subject to certain conditions. For instance, there must be a need for prompt IMF support and the debtor country must be making a good faith effort to reach a collaborative agreement with its creditors. This policy change should strengthen incentives for collective action in debt restructuring.

Renminbi to join SDR currency basket

The IMF reviews the composition and weighting of its Special Drawing Right (SDR) currency basket every five years. At the end of November 2015, the IMF Executive Board decided that the Chinese currency, the renminbi, met all the criteria to join the US dollar, the euro, the yen and the pound sterling as the fifth currency in the basket. A pivotal factor in this decision was the substantial increase in the international use and trading of the currency. The renminbi will join the basket with a 10.92% weighting. Its inclusion is mainly at the expense of the euro, whose share falls from 37.4% to 30.9%, while the shares of the yen and the pound fall from 9.4% to 8.3% and 11.3% to 8.1% respectively. The US dollar remains the key currency, its weighting only reducing slightly (from 41.9% to 41.7%). Since the turn of the year is not an opportune time to introduce a new currency basket, the IMF Executive Board decided to launch the new basket on 1 October 2016.

The IMF and Switzerland

The IMF is the central institution for international monetary cooperation. It promotes the stability of the global monetary and financial system as well as macroeconomic and financial stability in its member countries. Its main fields of activity are economic policy surveillance, the provision of financial support to countries faced with balance of payments difficulties, and technical assistance. The IMF currently has 188 member countries.

Switzerland is jointly represented in the IMF by the Federal Department of Finance (FDF) and the SNB. The Chairman of the SNB's Governing Board is a member of the IMF's highest decision-making body, the Board of Governors, which consists of a representative from each member country. The Head of the FDF is one of the 24 members of the IMFC, the IMF's steering committee.

Switzerland has been a member since 1992 and is part of a voting group (constituency) whose other members are Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan. Switzerland currently occupies the post of the constituency's executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body. Switzerland shares its chair on the Executive Board with Poland. The two countries alternate in appointing the executive director for a two-year period each time. The post of Swiss executive director is held alternately by a representative of the FDF and the SNB. The FDF and the SNB determine Switzerland's policy in the IMF and support the constituency's executive director in his or her activities.

Persistently high lending

Overall, IMF lending to members facing acute or potential balance of payments difficulties continued to decline in 2015, but remained at a high level in a longer-term comparison. In the course of the year, the IMF Executive Board approved six new concessional lending arrangements totalling SDR 33.2 billion. Six lending arrangements for a total of SDR 30.7 billion expired. At the end of 2015, the IMF was providing 18 countries with regular lending facilities totalling SDR 113.9 billion, SDR 69.9 billion of which was accounted for by what are referred to as insurance facilities (mainly the Flexible Credit Line), which allow countries to access the IMF's resources on a precautionary basis. Loan commitments and outstanding loans under all current and completed arrangements amounted to SDR 144.7 billion at the end of 2015.

Special Drawing Right

The Special Drawing Right (SDR) is an international reserve currency which the IMF introduced in 1969 to supplement member countries' existing reserve assets. The Fund uses the SDR as a means of payment and unit of account for its financial transactions with member countries. It creates SDRs as needed and allocates them to member countries in proportion to their quotas. Member countries may use these SDRs directly as a means of payment for their transactions with the IMF. SDRs also represent a claim on currency reserves of other IMF member countries. Through voluntary trading arrangements (previously two-way arrangements) with a number of member countries, including Switzerland, the IMF ensures that the exchange of SDRs for currency reserves functions smoothly. The value of the SDR is based on a basket of currencies comprising the US dollar, the euro, the yen, the pound sterling and, from October 2016, the renminbi. At the end of 2015, one SDR was equivalent to CHF 1.37 or USD 1.39.

IMF financing and lending capacity

The IMF can finance its lending through member country quotas and through the New Arrangements to Borrow (NAB). In 2015, total quotas amounted to SDR 238.2 billion and credit lines under the NAB came to a maximum of SDR 370 billion. Of these funds, which together totalled SDR 608.2 billion, SDR 562.9 billion was available at the end of 2015, because countries with an IMF lending arrangement or with balance of payment difficulties are not obliged to provide the IMF with funds. Of these deployable resources, the IMF was able to make over SDR 306.8 billion available for new lending at the end of 2015. The remainder was used for loan disbursements or commitments, and as liquidity buffers. In the event that available lending capacity should fall below a critical level, the IMF could have recourse to resources of SDR 286 billion from bilateral loan agreements.

Entry into force of quota and governance reform

The strong rise in demand for loans in the wake of the financial crisis prompted the IMF Board of Governors in 2010 to double the quotas to SDR 476.8 billion. This doubling was part of a comprehensive package of reforms that included a governance reform and involved a major realignment of quota shares in favour of emerging economies and developing countries. The reform package also aimed to reduce the number of executive directors representing advanced European economies by two. The last big hurdle to enactment of the reform package fell in December 2015, with the ratification by the US Congress. The quota reform became effective on 26 January 2016.

Quota

When a country joins the IMF, it is assigned a quota based broadly on its relative position in the world economy. The quota is expressed in terms of Special Drawing Rights, the unit of account used by the IMF. GDP, economic and financial openness, the variability of trade and capital flows, and the level of reserve positions are all used in the formula to calculate the quota.

The quota fulfils three important functions. First, a member's quota determines the maximum amount of financial resources the member is obliged to provide to the IMF. Second, the quota largely determines a member's voting power in IMF decisions. Third, the amount of financing a member can obtain from the IMF is based on its quota. The quota is thus decisive for the financial and organisational relationship between a member country and the IMF.

Members' quotas are reviewed every five years and adjusted as required. The last review was conducted in 2010, and the next is scheduled for 2016.

For Switzerland, the augmentation and realignment of the quotas meant an increase in its quota from SDR 3.5 billion to SDR 5.8 billion, but a decrease in its quota share from 1.45% to 1.21%. However, owing in particular to the fact that Poland and Kazakhstan's quota shares increased, the overall quota of the Swiss-led constituency remained about the same. As part of the IMF's aim to reduce the number of executive directors representing advanced European economies, Switzerland shares its chair on the Executive Board with Poland. The two countries agreed in 2012 to alternately appoint the executive director for a two-year term. Poland will make the appointment from November 2016. Switzerland will continue to represent the constituency in the IMFC.

Implications for Switzerland

Since the implementation of the quota increase requires a certain amount of time, a temporary expansion of the NAB was agreed in March 2011. As a result, the number of lenders was increased from 26 to 40 member countries, and the maximum amount of resources available for lending increased more than tenfold from SDR 34 billion to SDR 370 billion. The SNB's maximum loan commitment rose from SDR 1.54 billion to SDR 10.9 billion. Its share in the total, however, fell from 4.5% to 2.9%. The NAB was reduced to SDR 182 billion after the 2010 decision to increase the quota had been implemented in early 2016. The SNB's maximum loan commitment thus decreased to SDR 5.5 billion.

Temporary expansion of NAB

NAB and GAB

The New Arrangements to Borrow (NAB) form a financial safety net for the IMF. In addition to its regular resources, activation of the NAB can provide the IMF with up to SDR 182 billion. The NAB are activated for a specified period (six months at most). The amount activated is based on an estimate by the IMF of the expected contingent liabilities. There are now 40 member countries participating in the NAB. The SNB is the institution representing Switzerland.

In an exceptional crisis and in the event of a shortage of funds, the General Arrangements to Borrow (GAB) permit the IMF to borrow funds in the amount of SDR 17 billion from the G10 countries according to an agreed distribution key. The GAB can only be drawn down if agreement has not been reached under the NAB. The SNB is also the institution representing Switzerland in the GAB.

Exceptional increase of IMF resources

As a result of the crisis affecting the euro area at the time and the associated threat to the stability of the international monetary and financial system, IMF members at the Spring Meeting in April 2012 approved – in addition to the expansion of the NAB – an exceptional, temporary increase of IMF resources through bilateral borrowing. By the end of 2015, the IMF had entered into bilateral borrowing agreements worth over SDR 286 billion with 35 countries. Switzerland was unable to participate on the basis of the provisions of the Monetary Assistance Act (cf. chapter 7.3.1).

Concessional lending arrangements

The IMF supports low-income countries with concessional (subsidised-interest) loans. During 2015, the IMF Executive Board approved seven new concessional lending arrangements totalling SDR 1.1 billion, while four arrangements expired or were terminated. At the end of the year, the IMF was providing 20 member countries with subsidised interest lending facilities totalling SDR 2.7 billion. Loan commitments and outstanding loans under current and completed lending arrangements of this kind amounted to a total of SDR 8.1 billion.

Financing of the PRGT and Switzerland's contribution

To finance its concessional lending facilities, the IMF can avail itself of the Poverty Reduction and Growth Trust (PRGT). The PRGT's lending capacity stood at SDR 4.7 billion at the end of 2015. Switzerland has provided two loans towards the financing of the PRGT. The first loan, from 2001, amounted to SDR 250 million, was disbursed in full and has already been partly repaid. At the end of 2015, an amount of SDR 109 million (CHF 150 million) was still outstanding. The second loan, from 2011, amounted to SDR 500 million, of which SDR 14 million had been disbursed by the end of 2015. Both loans to the PRGT were granted by the SNB and are guaranteed by the Confederation. Switzerland is also involved in financing the interest subsidy for these loans. This contribution is provided by the Confederation.

Switzerland's reserve position

Both Switzerland's IMF quota and the GAB and NAB contributions are funded by the SNB. The used portions of the Swiss quota and of the Swiss contribution to the NAB together equal Switzerland's reserve position in the IMF. This reserve position represents a liquid asset of the SNB vis-à-vis the IMF and thus forms part of the currency reserves. At the end of 2015, Switzerland's reserve position amounted to SDR 1.2 billion (CHF 1.6 billion), compared with SDR 1.4 billion (CHF 2.0 billion) a year earlier. This decline is due to a further fall in outstanding IMF loans in 2015.

THE SNB'S FINANCIAL COMMITMENT TO THE IMF

In CHF billions

	Maximum	End-2015 Drawn down
Quota	4.783	0.146
GAB and NAB	15.083	1.462
PRGT[1]	0.842	0.17
SDR[2]	2.274	0.16

1 With federal guarantee.
2 As part of the voluntary trading arrangement with the IMF, the SNB has committed itself to purchase (+) or sell (–) SDRs against foreign currencies (USD, EUR) up to the agreed maximum of SDR 1.644 billion (CHF 2.274 billion).

Article IV consultation

Within the context of its Article IV consultations, the IMF regularly reviews the economic policies of its member countries and issues recommendations. On 18 May 2015, the IMF Executive Board concluded the annual Article IV consultation with Switzerland. The IMF anticipated a temporary slowdown in economic growth in Switzerland as a result of the Swiss franc's appreciation. In the medium term, however, it expected the economic outlook to brighten as the economy adjusts. Furthermore, it assumed that the prospective monetary policy normalisation in the US would ease upward pressure on the Swiss franc and support the recovery in demand from abroad. It considered the risks to lie in global conditions, in the uncertainties surrounding possible immigration restrictions and in the low inflation environment.

IMF recommendations

Against this backdrop, the IMF recommended that the SNB relax its monetary policy further, in particular by purchasing assets denominated in foreign currency. It also welcomed the introduction of a negative interest rate on sight deposits held at the SNB in order to reduce upward pressure on the Swiss franc. In light of the risks associated with the high balance sheet total, the IMF again advised the SNB to step up its provisions. Finally, the IMF welcomed the progress made in strengthening financial sector stability, particularly in relation to the capitalisation of banks and regulatory initiatives concerning the financial markets. Given the continuing imbalances in these markets, the IMF also advocated increasing the minimum leverage ratio requirements (unweighted capital ratio) for systemically important banks. Finally, the IMF recommended that Swiss deposit insurance arrangements be brought into line with international standards.

Conference on international monetary system

In May 2015, the SNB and the IMF jointly hosted a conference on the international monetary system for the sixth time. The event brought together high-level representatives of central banks and finance ministries, as well as leading economists and economic commentators.

7.2.2 BANK FOR INTERNATIONAL SETTLEMENTS

The BIS as bank and forum for central banks

The Bank for International Settlements (BIS) is an international organisation headquartered in Basel. It fosters international monetary and financial cooperation and serves as bank and forum for central banks. The SNB has occupied one of the seats (currently 20) on the BIS Board of Directors since its foundation in 1930.

The governors of member central banks convene every two months for the Global Economy Meeting, to discuss developments in the global economy and the international financial system, and also to guide and oversee the work of the various committees. The SNB participates in four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, the Committee on the Global Financial System and the Markets Committee. Additionally, it participates in various groups of experts.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision brings together high-ranking representatives of banking supervisory authorities and central banks from 28 jurisdictions, including Switzerland. It issues recommendations and sets international standards in the area of banking supervision.

Progress in implementing reform efforts

In 2015, the Basel Committee achieved substantial progress in implementing the reform efforts agreed on in the wake of the global financial crisis. In particular, the fundamental review of the market risk framework for trading book positions was finally completed after several years of work. The standardised and internal model-based approaches for calculating these positions were both reworked. The use of the model-based approach for trading book positions was made subject to stricter conditions and, for certain portfolios, is no longer permitted.

Further measures were taken to reduce the excessive variability in risk-weighted assets (RWA). The excessive variation between the RWA of different banks in respect of the same risks is caused by the use of banks' internal models. It is proposed to introduce floors to limit this variation. The floors prevent the model-based RWA from falling below a fixed percentage of the RWA calculated using standardised approaches. Consultations were held on the revised standardised approaches for credit and operational risks and on the design of these floors for model-based RWA.

Finalisation of reform programme at end-2016

The Basel Committee decided to postpone the deadline for finalising the reform programme by one year to the end of 2016. This deferral is intended to allow time for the findings of a strategic review on the role of banks' internal models to be taken into account. The fundamental review is aimed at assessing to what extent banks' use of internal models to determine capital requirements for individual risk classes and position categories should be restricted. The finalisation of the reform programme also comprises the following points: the completion of the review of standardised approaches for credit and operational risks, the design and calibration of floors for model-based RWA, and the calibration of the leverage ratio (unweighted capital ratio). The Group of Governors and Heads of Supervision agreed on a minimum leverage ratio requirement of 3% and discussed higher requirements for global systemically important banks.

Committee on Payments and Market Infrastructures

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of cashless payment arrangements and market infrastructures via which financial market transactions are cleared or settled. In 2015, the CPMI published a report analysing the features of digital (i.e. virtual) currencies from the perspective of payment transactions. In particular, the report states that the most important innovation of digital currencies is their underlying technology, which facilitates decentralised settlement of payments without the involvement of a trusted third party. The Committee also published, jointly with the International Organization of Securities Commissions (IOSCO), a series of reports on the implementation of the Principles for Financial Market Infrastructures (PFMI) in various jurisdictions, namely Australia, the EU, Japan and the US.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors developments in international financial markets and analyses their impact on financial stability. In 2015, the CGFS dealt in particular with the divergent developments in the various regions of the world and their impact on the financial system. It also focused on improving the BIS international banking statistics. In addition to its regular meetings, the Committee held two workshops, one on the use of contingent convertible bonds as a capital buffer, the other on the experiences to date with macroprudential instruments. Furthermore, it published two reports, drawn up jointly with the Markets Committee. The first examines the potential impact of regulatory changes on monetary policy. The second report analyses the effects of central bank monetary policy operations on the collateral market.

Markets Committee

The Markets Committee examines current developments in money, foreign exchange, capital and commodity markets, as well as the functioning of these markets. The focus in 2015 was once again on the divergence between the monetary policy stances of large central banks, the effectiveness of unconventional monetary policy measures, and volatility trends on the financial markets. Special attention was given to the impact of negative key interest rates on the transmission of monetary policy measures via the money and capital markets. The sometimes sharp price fluctuations on the foreign exchange and commodity markets and their impact on other market segments were also addressed on a number of occasions. Another key topic was the effect of regulatory changes on central banks' monetary policy operations. The Markets Committee also conducted a survey among central banks on their management and organisation of market intelligence as well as an examination of the growing importance of electronic trading on fixed income markets. Finally, a working group was set up in July under the aegis of the Markets Committee to develop a global code of conduct for the foreign exchange market. The first findings are expected in 2017.

7.2.3 FINANCIAL STABILITY BOARD

Swiss representation in the FSB

The Financial Stability Board (FSB) brings together national authorities responsible for financial stability (central banks, supervisory authorities, finance ministries), international organisations and standard-setting bodies. Switzerland is represented in the Plenary Assembly by the SNB and the FDF. The SNB is also a member of the Steering Committee. In addition, Switzerland participates in various other FSB committees and working groups. This representation is shared between FINMA, the FDF and the SNB, who collaborate closely to formulate Switzerland's position.

As in previous years, the FSB addressed a broad range of topics in 2015. From the SNB's standpoint, efforts to resolve the 'too big to fail' issue were of central importance. The primary focus was on the approval of the new standard for total loss-absorbing capacity (TLAC) for global systemically important banks. Apart from equity capital, which absorbs losses in current operations (going concern), TLAC also includes TLAC-eligible debt instruments in the form of bonds. These instruments absorb losses in the event of recovery or resolution (gone concern), as they are converted into equity. This additional loss-absorbing capacity is an important step in enabling the orderly resolution of global systemically important banks. The new TLAC standard was published in November 2015.

New standard for total loss-absorbing capacity

Another important topic was shadow banks, i.e. bank-like institutions in the credit market, such as hedge funds, other funds and leasing companies. Through global monitoring, the FSB aims to identify at an early stage any risks emanating from the shadow banking sector. In 2015, it published its fifth monitoring report on the subject. Additionally, the SNB took part in the FSB's peer review of shadow banks.

Shadow banks

At international level, the FSB continued to coordinate reform efforts in the area of interest rate and foreign exchange benchmarks (cf. chapter 2.2).

Reform of interest rate benchmarks

The FSB drew attention to the various risks in the international financial system, in particular the implications of rising debts in advanced and emerging economies, and the volatility in commodity prices at the prospect of a normalisation of US monetary policy. It also considered the effect of cyber attacks on the financial system. Furthermore, the FSB initiated an analysis of the potential risks that the growing role played by asset managers could pose to financial market liquidity.

Risks in financial system

7.2.4 OECD

Switzerland is a founding member of the Organisation for Economic Co-operation and Development (OECD). It works in the organisation's intergovernmental committees to promote the development of relations among the 34 member countries with regard to economic, social and development policies.

Participation

Together with the federal government, the SNB represents Switzerland on the Economic Policy Committee (EPC), the Committee on Financial Markets (CMF) and the Committee on Statistics and Statistical Policy (CSSP). On a political and academic level, the EPC and its working groups deal with current developments in the global economy as well as with structural policy. The CMF analyses ongoing developments in the international financial markets and examines regulatory issues. The CSSP drafts standards for the national accounts in coordination with other international organisations.

Twice a year the OECD publishes its *Economic Outlook*, which contains an assessment of the economic policy and growth prospects for Switzerland.

OECD recommendations for Switzerland

Every two years, the OECD also performs a detailed analysis of the economy of every member country. The results are published in country reports. The Swiss economy was evaluated in 2015, in close cooperation as always with the Confederation and the SNB. In its report published in December, the OECD rated the expansionary monetary policy as appropriate in view of the long period of very low or negative inflation, but highlighted the unintended side effects of the negative interest rate. In addition, the OECD still considered overheating in the real estate sector to be a potential threat to the Swiss economy. It therefore recommended establishing a framework for explicitly addressing affordability risk, to be deployed if needed, as well as close monitoring of mortgage lending for rental properties.

7.3 BILATERAL COOPERATION

7.3.1 MONETARY ASSISTANCE

Principles

The division of responsibilities between the SNB and the Confederation regarding the granting of monetary assistance loans is specified in the Federal Act on International Monetary Assistance (Monetary Assistance Act) of 19 March 2004. The Federal Council may instruct the SNB to grant loans or guarantees aimed at preventing or remedying serious disruptions in the international monetary system. A credit line amounting to CHF 10 billion has been established for such an eventuality. The SNB may also be requested to grant a loan to the IMF’s special funds. In such a case, however, a special guarantee credit must be approved by the Federal Assembly.

Lending to Ukraine

On 18 February 2015, the Federal Council decided, on the basis of the Monetary Assistance Act, that Switzerland would participate, under certain conditions, in the internationally coordinated assistance package to achieve financial stability in Ukraine. It instructed the SNB to negotiate a loan of USD 200 million to the country. The reason for this was the deterioration of the economic and financial situation in Ukraine, which led to a substantial increase in the international monetary assistance at the start of 2015. The monetary assistance took the form of new IMF loan commitments, supplemented by bilateral loans from donor countries. The Swiss loan is tied to the implementation of the extended arrangement under the IMF's Extended Fund Facility and must not be used to finance the military budget. The SNB subsequently negotiated a loan agreement with the central bank of Ukraine. The loan will be disbursed in stages based on the payout of tranches under the extended arrangement. The Confederation has given the SNB a guarantee for timely reimbursement and interest payments.

Revision of Monetary Assistance Act

On 18 December 2015, the Federal Council initiated an intradepartmental consultation procedure on the revision of the Monetary Assistance Act. In particular, the maximum duration of monetary assistance in systemic crisis situations should increase from the current seven years to ten. This is in line with the IMF's call, in the wake of the global financial crisis, for ten-year terms for additional funding. The extension of the term would ensure that Switzerland can continue to participate in measures to stabilise the international monetary and financial system. Another amendment concerns the SNB's involvement in monetary assistance. The SNB should now be able to participate in monetary assistance for individual countries under the Monetary Assistance Act, even where there is no actual or potential disruption to the international monetary system. In such cases, the Federal Council should be able to request that the SNB grant a loan. Once again, the Confederation would provide the SNB with a guarantee for timely reimbursement and interest payments. The SNB supported the amendment proposals.

7.3.2 COOPERATION WITH OTHER CENTRAL BANKS AND FOREIGN AUTHORITIES

The SNB cultivates regular bilateral contacts with other central banks and foreign authorities.

Cooperation with Liechtenstein

Switzerland and the Principality of Liechtenstein concluded a Currency Treaty in 1980. Before that date, a de facto monetary union had existed between the two countries for almost 60 years. Under the Currency Treaty, the Swiss franc became legal tender in Liechtenstein, and the SNB became the country's central bank. As a result, certain Swiss legal and administrative regulations relating to monetary policy are applicable in Liechtenstein, in particular the National Bank Act and the National Bank Ordinance. It is the task of the SNB to provide Liechtenstein financial institutions with liquidity. Liechtenstein banks, like Swiss banks, are obliged to submit the data required for the conduct of monetary policy and for the compilation of banking statistics. The SNB cooperates closely with the relevant authorities in Liechtenstein. The government of the Principality of Liechtenstein and the Governing Board of the SNB inform and consult one another when required.

Cooperation with the PBC

The key focus in 2015 was on cooperation with the Chinese central bank, the People's Bank of China (PBC). The main subject was the establishment of a renminbi hub in Switzerland. In January 2015, the PBC and the SNB signed a memorandum of understanding on financial cooperation. A core aspect of this was renminbi clearing in Switzerland. At the end of November, the PBC authorised the Swiss branch of China Construction Bank to be the first renminbi clearing bank in Switzerland. In the same month, the PBC authorised direct trading between renminbi and Swiss francs on the China Foreign Exchange Trade System (CFETS). These measures facilitate the use of the Chinese currency between Swiss and Chinese companies as well as financial institutions.

Financial dialogue

The SNB also participates with key partner countries in bilateral financial dialogues, which are led by the State Secretariat for International Financial Matters (SIF) in liaison with various federal institutions. In 2015, the SNB took part in financial dialogues with Brazil, China, Japan and Singapore.

7.3.3 TECHNICAL ASSISTANCE

The SNB provides technical assistance to other central banks upon request. As a rule, technical assistance is provided by SNB experts and includes the exchange of knowledge specific to central banks.

Focus of technical assistance

As in previous years, in 2015 the SNB primarily provided assistance to the central banks from the group of countries with which it forms a constituency in the IMF (cf. chapter 7.2.1). The main recipient of technical assistance was the National Bank of the Kyrgyz Republic, which was supported in particular in developing a macroeconomic model and in the area of cash management. The SNB also provided assistance to the central banks of Kazakhstan, Serbia and Tajikistan. Coordination with the National Bank of Poland, another provider of technical assistance, was strengthened. Outside the constituency, an IMF mission was conducted involving cooperation with Bank Indonesia in the field of financial stability.

International events

Jointly with the IMF and the State Secretariat for Economic Affairs (SECO), the SNB initiated a monetary policy discussion forum in 2014 for the central banks from the IMF constituency and other countries in Eastern Europe, the Caucasus and Central Asia. This discussion forum generated considerable interest and was repeated in 2015 against the backdrop of the monetary policy challenges within the region.

The twelfth joint seminar with the National Bank of Poland was held in Zurich in May 2015, also aimed at central bank economists from the constituency and other countries in Eastern Europe, the Caucasus and Central Asia. The seminar addressed the subject of inflation forecast models and offered attendees the opportunity to present their country-specific model approaches.

Study Center Gerzensee

The Study Center Gerzensee, an SNB foundation for the training of central bankers, bankers and business specialists from Switzerland and abroad, again organised two to three-week courses on monetary policy and financial markets for employees of foreign central banks in 2015. As in previous years, guest presentations by employees of the SNB and other institutions formed an integral part of the courses. Altogether, approximately 150 participants from over 80 countries attended the six courses.

8 Banking services for the Confederation

Mandate

The Swiss National Bank (SNB) provides banking services to the Confederation (art. 5 para. 4 and art. 11 of the National Bank Act).

Remuneration for banking services

The SNB provides these banking services to the Confederation in return for adequate compensation. However, they are provided free of charge if they facilitate the implementation of monetary policy. Services subject to remuneration comprise payment transactions, liquidity management, the custody of securities and the issue of money market debt register claims (MMDRCs) and Confederation bonds. Details of the services to be provided and the remuneration are laid down in an agreement concluded between the Confederation and the SNB.

Issuing activities

In 2015, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 125.3 billion were subscribed (2014: CHF 173.8 billion), of which CHF 24.2 billion was allocated (2014: CHF 35.2 billion). The corresponding figures for Confederation bonds were CHF 4.7 billion (2014: CHF 9.9 billion) and CHF 2.7 billion (2014: CHF 5.3 billion) respectively. Issues of MMDRCs and Confederation bonds were effected by auction on the SIX Repo Ltd trading platform.

Negative MMDRC yields

Following the discontinuation of the minimum exchange rate on 15 January 2015 and the lowering of the interest rate on sight deposits to –0.75% as of 22 January 2015, money market rates on the Swiss franc money market once again registered a significant decline. In this environment, MMDRC yields also dropped further into negative territory. Taken over the whole year, yields on MMDRCs with a term of three months ranged from –0.36% to –1.52%. The lowest level was therefore well under that of the previous year (–0.42%).

Payments

The SNB carried out roughly 112,000 (2014: 94,000) payments in Swiss francs and approximately 27,000 (2014: 26,000) payments in foreign currencies on behalf of the Confederation.

9 Statistics

9.1 BACKGROUND

Purpose of activities in field of statistics

The Swiss National Bank (SNB) collects the statistical data it requires to fulfil its statutory mandate on the basis of art. 14 of the National Bank Act (NBA). It collects data for the conduct of monetary policy and the oversight of financial market infrastructures, for safeguarding the stability of the financial system and preparing both the balance of payments and the statistics on the international investment position. Statistical data compiled for purposes relating to international monetary cooperation are transmitted to international organisations. The National Bank Ordinance (NBO) lays down the details of the SNB's activities in the field of statistics.

Institutions required to provide data

Banks, stock exchanges, securities dealers and investment funds are required to provide the SNB with figures on their activities (art. 15 NBA). The SNB may also collect statistical data on the business activities of other private individuals or legal entities where this is necessary to analyse trends in the financial markets, obtain an overview of payment transactions or prepare the balance of payments or the statistics on Switzerland's international investment position. This applies in particular to insurance companies, occupational pension institutions, investment and holding companies as well as operators of financial market infrastructures.

Survey activity kept to a minimum

The SNB limits the number and type of surveys to what is strictly necessary. It seeks to minimise the demands placed on those required to provide information.

Confidentiality and exchange of data

Under art. 16 NBA, the SNB is required to ensure the confidentiality of the data it collects and may only publish them in aggregated form. However, the data may be supplied to the relevant Swiss financial market supervisory authorities.

9.2 PRODUCTS

Surveys and statistics

The SNB conducts statistical surveys in the areas of banking statistics, collective investment statistics, the balance of payments and the international investment position, and payment transactions. An overview is contained in the annex to the NBO and on the SNB website. The SNB publishes the results of its surveys in the form of statistics. It also maintains a data bank with over 6 million time series in the fields of banking, financial markets and economics.

Statistical publications

The SNB releases its statistics through various channels – in the form of printed publications, on its website and via the web-based data portal launched in 2015. The printed publications are *Banks in Switzerland*, *Swiss Balance of Payments and International Investment Position*, *Direct Investment* and *Swiss Financial Accounts*. The SNB's statistical releases and publications are available in English, French and German.

The new SNB data platform

In August 2015, the SNB launched its new data portal (https://data.snb.ch), via which it will release most of its statistical data in future.

The new platform has several advantages as regards the use of statistical data. Data can be accessed according to topic, explanatory texts can be viewed directly in the data window, and data revisions are easy to keep track of. Additionally, users can adapt the pre-defined online tables using various criteria, allowing them to set the level of detail themselves. Finally, data prepared in this way can be easily downloaded in different formats and in long time series, and worked on locally.

The platform was launched in August 2015 using current data on the Swiss balance of payments and international investment position as well as the data from the former *Monthly Statistical Bulletin*. It was expanded in December 2015 to include data on direct investment, and in February 2016 with data from the former *Monthly Bulletin on Banking Statistics*. Data relating to *Banks in Switzerland* and the *Swiss Financial Accounts* will be added in June and November 2016 respectively.

Special Data Dissemination Standard

The SNB publishes monthly data on its website in line with the International Monetary Fund's (IMF) Special Data Dissemination Standard (SDDS). The data include information on the monetary aggregates and the reserve assets.

9.3 PROJECTS

Amendments in line with ARB revision

In 2014, the Swiss Financial Market Supervisory Authority (FINMA) published its revised accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). The accounting rules form the conceptual basis for a number of the SNB's statistical surveys, which therefore had to be revised accordingly. The following surveys were affected: 'Comprehensive monthly balance sheet', 'Selected balance sheet positions for monetary aggregate statistics', 'Minimum reserves' and 'Comprehensive year-end statistics'. The definition of the monetary and credit aggregates was also adjusted on the basis of the new breakdown. Surveys based on the new accounting rules were first conducted as of the reference date of 30 November 2015.

Preparatory work for revised survey on new mortgage lending

The SNB has conducted a quantitative supplementary survey (cf. art. 6 NBO) on mortgage lending, on a quarterly basis, since 2011. The survey findings play a key role in the assessment of risks in the mortgage market. In order to ensure the ongoing availability of the information it requires to fulfil its statutory mandate in the area of financial stability, the SNB decided in 2014 to convert the supplementary survey to a regular survey in accordance with art. 5 NBO. At the same time, it decided to collect data on an individual loan basis rather than the previous aggregate basis. Furthermore, additional variables on interest rates, interest rate and capital commitment, region and type of property (single-family home, owner-occupied apartment) are to be gathered. Various kinds of preparatory work were undertaken in 2015 to ensure that the revised survey could begin in the first quarter of 2017. This included a number of meetings with reporting banks within the framework of the banking statistics committee.

Expansion of Data Gaps Initiative

Since 2013, the SNB has been transmitting data in connection with the Financial Stability Board's (FSB) Data Gaps Initiative to the central data hub specially set up for the purpose and hosted by the Bank for International Settlements (BIS). Participants in this initiative are countries in which global systemically important banks are headquartered. The aim is to establish an exchange of data between these countries for better assessment of international financial stability issues. In 2015, the FSB agreed to expand the scope of data deliveries. To this end, additional data are to be collected from the banks concerned. This enhanced survey is to be conducted for the first time in the second half of 2017.

9.4 COLLABORATION

With regard to organisational and procedural issues, and when new surveys are introduced or existing ones modified, the reporting institutions – together with their associations – are given the opportunity to comment.

Groups of experts

The SNB is advised on the content of its banking surveys by the banking statistics committee. This committee is made up of representatives of the Swiss commercial banks, the Swiss Bankers Association and FINMA. The banking statistics committee gave special attention in 2015 to the revision of the survey on new mortgage lending. A group of experts under the direction of the SNB participates in the compilation of the balance of payments. It comprises representatives from manufacturing, banking, insurance, various federal agencies and the KOF Swiss Economic Institute at ETH Zurich.

Public institutions

In compiling statistical data, the SNB collaborates with the relevant federal government bodies, particularly the Swiss Federal Statistical Office (SFSO), with FINMA, as well as with the authorities of other countries and international organisations.

Swiss Federal Statistical Office

The SNB has a close working relationship with the SFSO. Reciprocal data access is governed by a data exchange agreement; this agreement also covers the collaboration between the two authorities in drawing up the Swiss financial accounts. Moreover, the SNB belongs to a number of bodies that work with Swiss federal statistics. These include the federal statistics commission (*Bundesstatistikkommission/Commission de la statistique fédérale*) and the group of experts for economic statistics (*Expertengruppe für Wirtschaftsstatistik/Groupe d'experts de statistique économique*).

Federal Office for Housing

The SNB collects quarterly data on mortgage rates from about 80 banks on behalf of the Federal Office for Housing (FOH). Based on these data, the FOH calculates the reference interest rate for tenancies. The sole responsibility for the contents of this survey lies with the FOH, which also publishes the reference interest rate.

FINMA

Under the agreement with FINMA on the exchange of data in the financial sector, the SNB collects information, including data on the capital adequacy, liquidity and interest rate risk of banks and securities dealers. The year 2015 was marked by the statistical implementation of the new survey on the net stable funding ratio (NSFR). The relevant data will be collected for the first time for the second quarter of 2016.

Principality of Liechtenstein

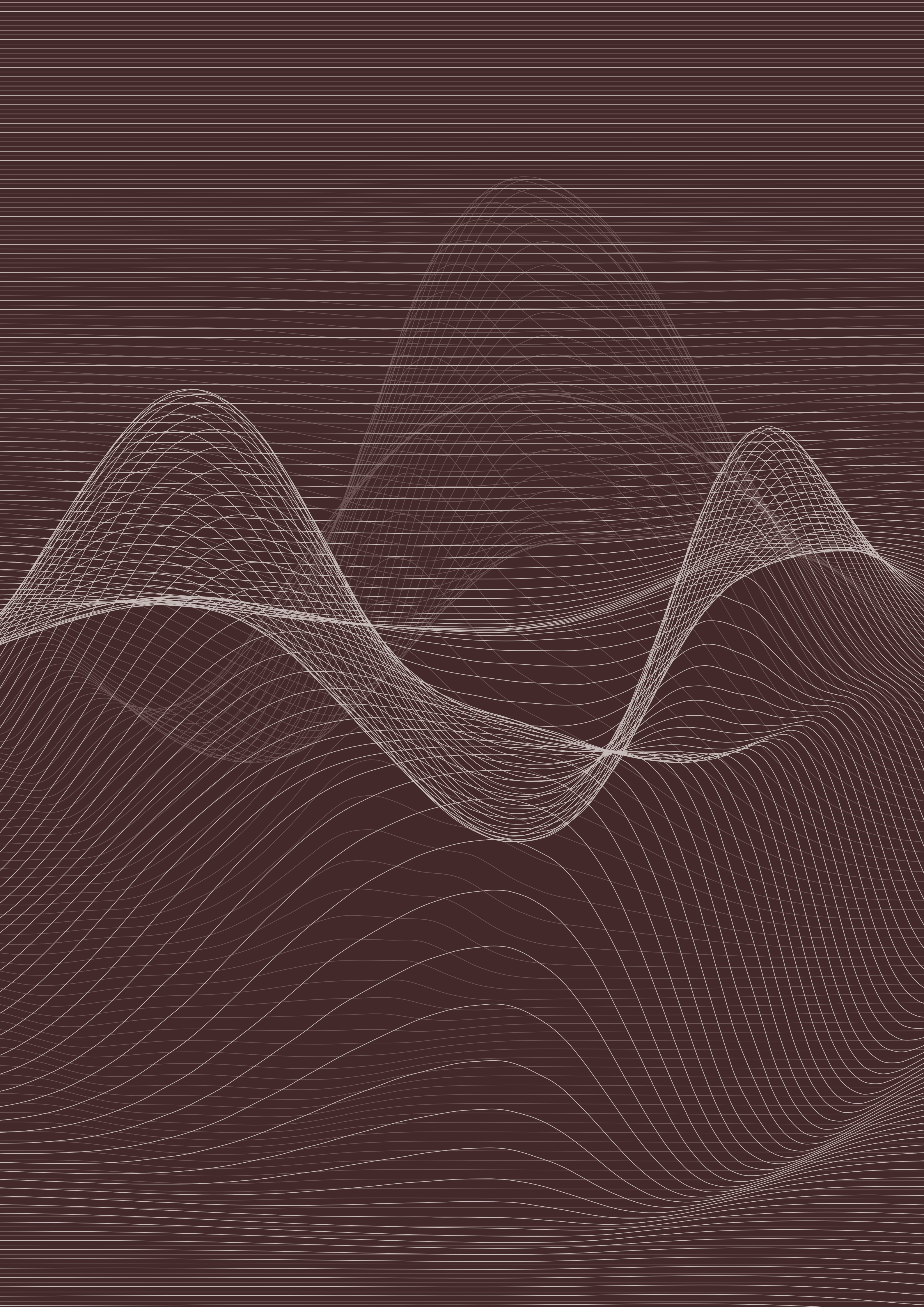
The SNB also surveys Liechtenstein-based companies when preparing its balance of payments figures and its statistics on Switzerland's international investment position. It works with the relevant authorities in Liechtenstein (the Office of Economic Affairs and the Financial Market Authority).

EU

SNB collaboration with the EU is based on the bilateral statistical agreement that came into effect in 2007. It covers the financial accounts, parts of the banking statistics as well as, since 2010, the balance of payments. The SNB plays a role in various bodies of the EU statistical office (Eurostat).

Other international organisations

In the area of statistics, the SNB works closely with the BIS, the Organisation for Economic Co-operation and Development (OECD) and the IMF. This collaboration is aimed at harmonising statistical survey methods and analyses. In 2015, the SNB again participated in several international working groups concerned with closing data gaps in financial market statistics. Improving the statistical basis will help identify undesirable trends (such as those that emerged prior to the financial crisis in 2008) at an early stage in the future.



Financial report

Key financial figures for 2015

SELECTED BALANCE SHEET FIGURES

In CHF billions

	31.12.2014	31.03.2015	30.06.2015	30.09.2015	**31.12.2015**
Banknotes in circulation	**67.6**	66.9	67.4	68.2	**72.9**
Sight deposits of domestic banks	**328.0**	373.9	385.4	396.3	**402.3**
Sight deposits of foreign banks and institutions	**17.5**	18.7	21.2	25.7	**25.6**
Other sight liabilities	**33.1**	37.5	34.9	32.0	**30.2**
Claims from Swiss franc repo transactions	**–**	–	–	–	**–**
Liabilities from Swiss franc repo transactions	**–**	–	–	–	**–**
SNB debt certificates in Swiss francs	**–**	–	–	–	**–**
Gold holdings	**39.6**	38.6	36.4	36.3	**35.5**
Foreign currency investments	**510.1**	531.9	529.5	566.2	**593.2**
Of which, in euros	**236.4**	223.1	225.0	237.1	**254.6**
Of which, in US dollars	**147.2**	172.5	171.0	189.9	**193.5**
Provisions for currency reserves[1]	**54.8**	54.8	56.8	56.8	**56.8**
Distribution reserve[2]	**–6.8**	–6.8	27.5	27.5	**27.5**

1 The allocation to the provisions for currency reserves forms part of the profit appropriation. For 2015, it amounts to CHF 1.4 billion (cf. p. 157).
2 The distribution reserve changes as part of the profit appropriation. After the profit appropriation for 2015, it will amount to CHF 1.9 billion (cf. p. 157).

SELECTED FIGURES FROM INCOME STATEMENT

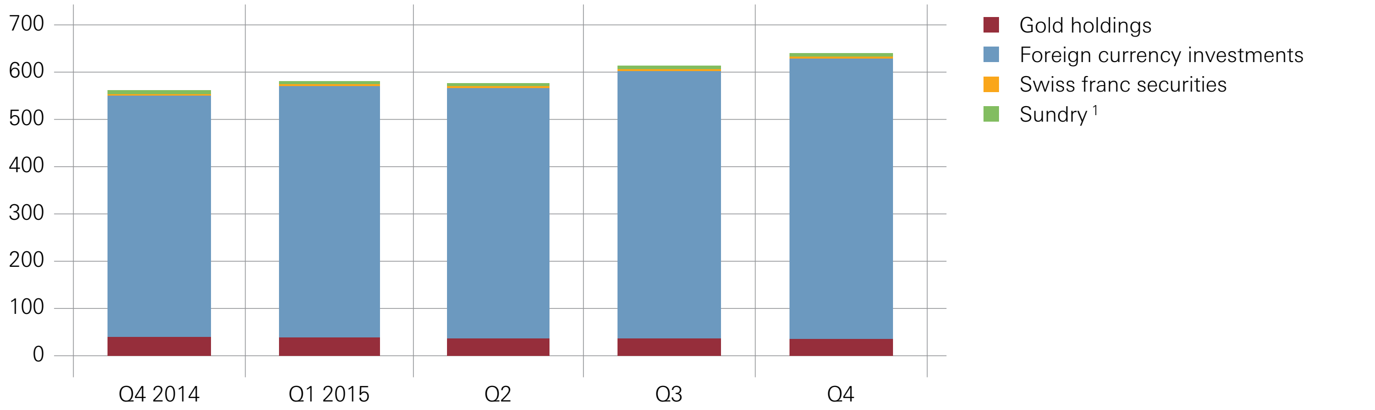
In CHF billions

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Year 2015
Result for period[1]	–30.0	–20.0	16.2	10.6	–23.3
Of which, net result from gold	–1.0	–2.2	–0.1	–0.9	–4.2
Of which, net result from foreign currency positions	–29.3	–18.0	16.0	11.3	–19.9

1 For appropriation of profit, cf. p. 156.

ASSETS AT END OF QUARTER

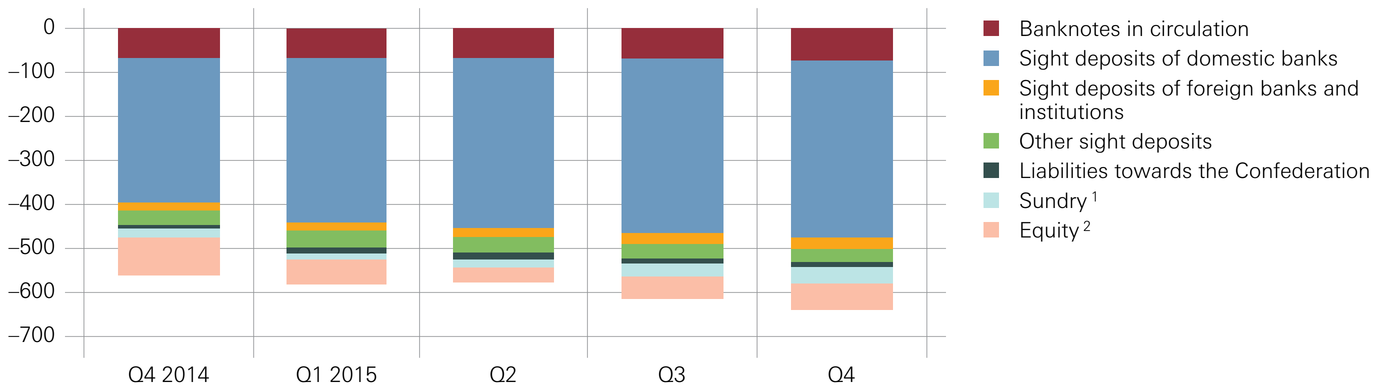
In CHF billions



1 Reserve position in the IMF, international payment instruments, monetary assistance loans, tangible assets, participations, other assets.
Source: SNB

LIABILITIES AT END OF QUARTER

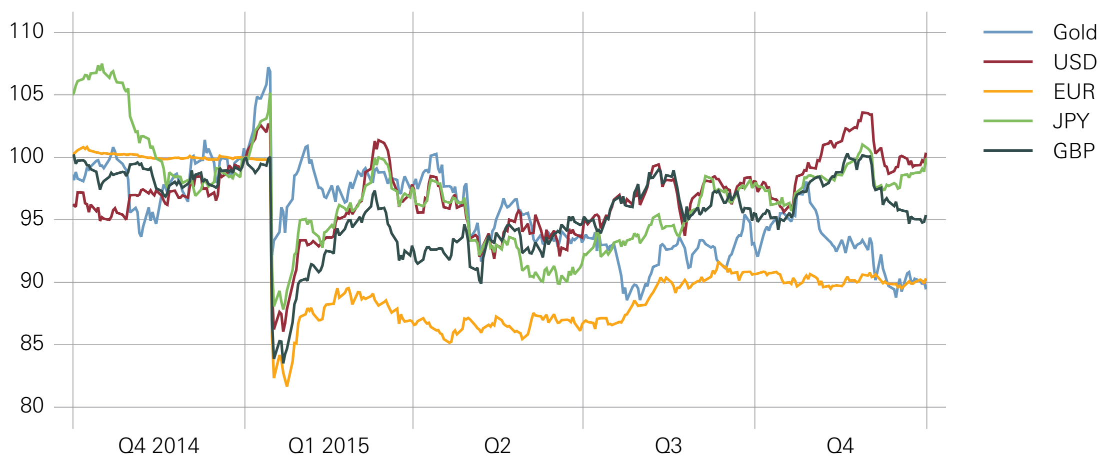
In CHF billions



1 Foreign currency liabilities, counterpart of SDRs allocated by the IMF, other liabilities.
2 Provisions for currency reserves, share capital, distribution reserve (before appropriation of profit), annual result.
Source: SNB

EXCHANGE RATES AND GOLD PRICE IN SWISS FRANCS

Index: 1 January 2015 = 100



Source: SNB

Business report

The business report provides information on organisational and operational developments as well as the financial result of the Swiss National Bank (SNB). In addition, as a company quoted on the stock exchange, the SNB publishes information on corporate governance (SIX Swiss Exchange Ltd corporate governance directive) in its business report.

The business report and the annual financial statements together constitute the financial report of the SNB, as stipulated under Swiss company law (art. 958 Swiss Code of Obligations (CO)). At the SNB, the business report fulfils the function of a management report (art. 961c CO).

The fulfilment of the SNB's statutory mandate is explained in the accountability report.

1
Corporate governance

1.1 BACKGROUND

The Swiss National Bank (SNB) is a special-statute joint-stock company that is administered with the cooperation and under the supervision of the Confederation. Its organisational structure and responsibilities are governed by the National Bank Act of 3 October 2003 (NBA; as at 1 January 2016) and the 'Regulations on the organisation of the Swiss National Bank of 14 May 2004' (Organisation regulations; as at 15 July 2011). At the SNB, statutes and regulations fulfil the function of articles of association.

Mandate

The SNB's mandate is derived directly from the Federal Constitution. Under the terms of art. 99 of the Constitution, the SNB is required to pursue a monetary policy that serves the overall interests of the country. In addition, the article enshrines the SNB's independence and requires it to set aside sufficient currency reserves from its earnings, also specifying that a part of these reserves be held in gold. Finally, the Constitution stipulates that the SNB distribute at least two-thirds of its net profits to the cantons.

NBA and implementation decrees

The main legislation governing the activities of the SNB is the NBA, which sets out in detail the various elements of the SNB's constitutional mandate (art. 5) and independence (art. 6). To counterbalance the SNB's independence, the NBA specifies a duty of accountability and a duty to provide information to the Federal Council, parliament and the public (art. 7). The SNB's scope of business is outlined in arts. 9–13 NBA. The instruments used by the SNB to implement its monetary policy and for investing its currency reserves are set out in the 'Guidelines of the Swiss National Bank on monetary policy instruments' and the 'Investment policy guidelines'.

The NBA also sets out the legal basis for the collection of statistical data on financial markets, the imposition of minimum reserve requirements on banks and the oversight of financial market infrastructures. Provisions governing the implementation of these statutory powers may be found in the National Bank Ordinance (NBO; as at 1 January 2016) issued by the SNB Governing Board.

Finally, the NBA lays down the foundations of the SNB's organisational structure (arts. 2, 33–48). The details of the organisational structure are governed by the 'Organisation regulations' issued by the Bank Council and approved by the Federal Council.

In 2013, the Federal Council issued an ordinance against excessive remuneration at listed companies. This ordinance does not apply to the SNB, since the SNB is not a corporation within the meaning of arts. 620–763 of the Swiss Code of Obligations (CO). Where the NBA leaves room for manoeuvre, the SNB implements the ordinance requirements. This applies especially to the prohibition of voting rights for corporate bodies and deposited shares, as well as the requirements regarding independent proxy voting and the proxy's powers.

1.2 SHAREHOLDERS

Listed registered shares

The share capital of the SNB amounts to CHF 25 million and is fully paid up. It is divided into 100,000 registered shares with a nominal value of CHF 250 each. SNB registered shares are traded on the Swiss stock exchange (SIX Swiss Exchange) under the Swiss Reporting Standard.

The majority of SNB shares are held by cantons and cantonal banks, while the remaining shares are mainly owned by private individuals. The Confederation is not a shareholder. At the end of 2015, around 52% of the shares were held by cantons and cantonal banks. The major shareholders were the Canton of Berne with 6.63% (6,630 shares), Theo Siegert (Düsseldorf) with 6.60% (6,595 shares), the Canton of Zurich with 5.20% (5,200 shares), the Canton of Vaud with 3.40% (3,401 shares) and the Canton of St Gallen with 3.00% (3,002 shares).

In 2015, the members of the Bank Council did not hold any SNB shares. According to the 'Code of Conduct for members of the Bank Council', Bank Council members may not hold any such shares. At 31 December 2015, a member of the Enlarged Governing Board held one SNB share.

Shareholder rights

Shareholder rights are governed by the NBA, with the provisions of company law being subsidiary to those of the NBA. As the SNB fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, shareholder rights are restricted as compared with a joint-stock company under private law. For shareholders from outside the public sector, voting rights are limited to 100 shares. Dividends are limited to a maximum of 6% of the share capital. Of the remaining distributable profit, one-third is paid out to the Confederation, and two-thirds to the cantons.

The business report and the annual financial statements must be approved by the Federal Council before being submitted to the General Meeting of Shareholders. Other provisions on the General Meeting of Shareholders that deviate from company law concern its convocation, agenda and adoption of resolutions. Agenda items with motions from shareholders must be signed by at least 20 shareholders and submitted to the President of the Bank Council in writing and in good time, before invitations are sent out (cf. Participation rights, p. 138).

Information for shareholders

Notifications to shareholders are generally communicated in writing to the address listed in the share register, and by one-off publication in the Swiss Official Gazette of Commerce. Shareholders only receive information which is also available to the public.

Independent proxy

Since the 2014 General Meeting of Shareholders, the SNB has made it possible for shareholders to grant their power of attorney and send instructions to the independent proxy also by electronic means.

1.3 ORGANISATIONAL STRUCTURE

Departments

The SNB has two head offices, one in Berne and one in Zurich. It is divided into three departments. For the most part, the organisational units of Departments I and III are located in Zurich, while those of Department II are mainly in Berne. Each of the three departments is headed by a member of the Governing Board, who is assisted in this task by a deputy.

Branch office

The Singapore branch office allows the SNB to efficiently manage the Asia-Pacific part of its foreign exchange reserves. Geographical proximity to investment markets and participants in these markets also allows for a better understanding of the local markets and economic areas. Additionally, this location facilitates round-the-clock foreign exchange market operations.

Representative offices

The delegates for regional economic relations are responsible for monitoring economic developments and explaining the SNB's policy in the regions. To this end, in addition to the head offices in Zurich and Berne, the SNB maintains representative offices in Basel, Geneva, Lausanne, Lugano, Lucerne and St Gallen. The delegates are supported by the Regional Economic Councils, which analyse the economic situation and the effect of monetary policy in their regions and report the results to the Governing Board. In addition, the Regional Economic Councils conduct a regular exchange of information with the delegates.

The SNB also maintains 14 agencies for the receipt and distribution of banknotes and coins. These agencies are run by cantonal banks.

Agencies

1.4 CORPORATE BODIES AND RESPONSIBILITIES

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The composition of these bodies is described on pp. 201–202.

General Meeting of Shareholders

The General Meeting of Shareholders elects five of the Bank Council's eleven members (via separate ballot per member) and appoints the Audit Board. It approves the business report and the annual financial statements, and grants discharge to the Bank Council. Furthermore, within the context of the profit appropriation, the General Meeting of Shareholders determines the dividend. This may not exceed 6% of share capital.

Bank Council

The Bank Council is the SNB's supervisory and control body. Six of its members are elected by the Federal Council; five by the General Meeting of Shareholders. The Federal Council is also responsible for appointing the President and Vice President. The Bank Council oversees and controls the conduct of business by the SNB. The Bank Council's responsibilities cover, in particular, the determination of the basic principles according to which the SNB should be organised (including the structure of its accounting and financial control systems and its financial planning) and the approval of the budget and the provisions for currency reserves (art. 30 NBA). The Bank Council also assesses risk management and the basic principles underlying the investment process, and is kept informed of the SNB's resource strategies. The Bank Council submits proposals to the Federal Council for the appointment of Governing Board members and their deputies. It determines, in a set of regulations, the remuneration of its own members, and the remuneration of Governing Board members and deputies. Finally, the Bank Council approves the agreement with the Federal Department of Finance on profit distribution, decides on the design of banknotes and appoints the members of the Regional Economic Councils. The individual tasks of the Bank Council are described in art. 42 NBA and art. 10 of the 'Organisation regulations'. Monetary policy does not form part of its remit; this falls to the Governing Board.

Bank Council activities

In 2015, the Bank Council held one ordinary full-day meeting (in February) and five ordinary half-day meetings (in April, June, September, October and December), all of which were attended by the members of the Governing Board.

The Bank Council offered its farewell to former Vice Chairman of the Governing Board Jean-Pierre Danthine in mid-2015. It drafted a proposal to the Federal Council for the appointment of Andréa M. Maechler, and welcomed her as the new member of the Governing Board with effect from 1 July 2015.

The Bank Council took note of the accountability report for 2014 submitted to the Federal Assembly and approved the financial report for 2014 for submission to the Federal Council and the General Meeting of Shareholders. Furthermore, the Bank Council discussed reports submitted by the Audit Board to the Bank Council and the General Meeting of Shareholders, took note of the annual reports on the financial and operational risks and on compliance, as well as the 2014 annual reports of the pension funds, prepared the 2015 General Meeting of Shareholders and approved the 2014 budget statement and the 2016 budget.

In addition, the Bank Council approved the project loan for the renovation of the head office at Bundesplatz 1 in Berne.

Following its approval in previous years of the new designs for the 10, 20 and 50-franc notes, the Bank Council approved the designs for the remaining 100, 200 and 1000-franc notes in the ninth banknote series.

Additionally, the Bank Council appointed new members to the Regional Economic Councils of Geneva, Northwestern Switzerland and Italian-speaking Switzerland, applicable from the 2015 General Meeting of Shareholders, and also defined the membership of the Bank Council Committees for the 2015–2016 term of office.

The Bank Council proposed to the 2015 General Meeting of Shareholders that the external Audit Board's mandate be newly awarded to KPMG Ltd for the 2015–2016 term of office.

Furthermore, the Bank Council revised the regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board as well as the regulations on the compensation of SNB supervisory and executive bodies with effect from 1 May 2016. It also took note of the revised SNB 'Code of Conduct'.

Finally, the Bank Council approved the level of provisions for currency reserves.

Committees

The Bank Council has an Audit Committee, a Risk Committee, a Compensation Committee and a Nomination Committee, each of which has three members.

The Audit Committee supports the Bank Council in monitoring accounting and financial reporting, as well as the activities of the Audit Board and the Internal Audit unit. It also assesses the appropriateness and efficacy of the internal control system (ICS), in particular regarding the processes for managing operational risk and ensuring compliance with laws, regulations and directives.

The Risk Committee assists the Bank Council in monitoring financial risks and in assessing the governance of the investment process. The Audit Committee and the Risk Committee coordinate their activities and collaborate in areas where their tasks overlap.

The Compensation Committee supports the Bank Council in determining the principles of the SNB's compensation and salary policy, and submits proposals to the Bank Council regarding the salaries of Governing Board members and their deputies.

The Nomination Committee submits proposals for election of those Bank Council members who are appointed by the General Meeting of Shareholders, and for members of the Governing Board and their deputies, who are elected by the Federal Council.

Meetings

The Audit Committee held five meetings, four of which were attended by the Audit Board. The Risk Committee held three meetings. The Compensation Committee held two meetings. The Nomination Committee did not meet.

Executive management

The Governing Board is the SNB's highest management and executive body. Its three members are appointed for a six-year term by the Federal Council on the recommendation of the Bank Council. The Governing Board is responsible, in particular, for monetary policy, asset management strategy, contributing to the stability of the financial system, and international monetary cooperation.

The Enlarged Governing Board is made up of the three Governing Board members and their deputies. It issues the strategic guidelines for the SNB's business operations.

The Board of Deputies is responsible for the planning and implementation of these strategic guidelines. It ensures coordination in all operational matters of interdepartmental importance.

Audit Board

The Audit Board examines whether the accounting records, the annual financial statements and the proposal for the allocation of the net profit are in accordance with statutory requirements. To this end, it is entitled to inspect the SNB's business activities at any time. It is appointed by the General Meeting of Shareholders for a term of one year. The auditors must meet special professional qualifications pursuant to art. 727b CO, and must be independent of the Bank Council, the Governing Board and the controlling shareholders.

KPMG Ltd was newly elected as the Audit Board at the 2015 General Meeting of Shareholders (PricewaterhouseCoopers Ltd in 2014). Philipp Rickert is the auditor in charge. Auditing fees for the 2015 financial year totalled CHF 0.3 million (2014: CHF 0.3 million). KPMG Ltd also provided consulting services in the areas of law and tax amounting to roughly CHF 30,000 (2014: none).

Internal Audit

The Internal Audit unit is an independent instrument for overseeing and monitoring the SNB's business activities. It reports to the Audit Committee of the Bank Council.

1.5 REMUNERATION REPORT

Remuneration

When remunerating the members of the Bank Council and the Enlarged Governing Board, the Bank Council is required to comply analogously with the Confederation's principles governing the remuneration and other contractual conditions for senior staff and management officers of federal enterprises and institutions, as outlined in art. 6a of the Federal Personnel Act. The Bank Council laid down the principles governing remuneration in the regulations on the compensation of SNB supervisory and executive bodies of 14 May 2004 (Compensation regulations).

Remuneration and compensation remitted in the year under review are listed in the tables on pp. 183–184.

Bank Council

The compensation for members of the Bank Council is made up of a fixed annual remuneration plus per diem payments for special assignments and committee meetings. No compensation is due for committee meetings that are held on the same day as Bank Council meetings.

Executive management

The remuneration paid to members of the Enlarged Governing Board comprises a salary and a lump sum for representation expenses. It is based on the level of remuneration in other financial sector companies of a similar size and complexity, and in large federally run companies.

Regional Economic Councils

Information on the remuneration for members of the Regional Economic Councils can be found on p. 183.

Severance payments and compensation for restrictions

The SNB does not make severance payments to departing members of the Bank Council. In accordance with the SNB's regulations on the employment relationship of the Governing Board of the SNB and their deputies (Regulations on the Governing Board), members of the Governing Board and their deputies are entitled to compensation for the restrictions on their right to carry out professional activities after termination of their employment with the SNB. They cover all forms of financial intermediary activities for a period of six months. Consequently, compensation amounting to six months of salary is paid. A twelve-month limitation applies to activities with systemically important banks in Switzerland. If a member of the Enlarged Governing Board is not reappointed, is removed from office or is dismissed in the interest of the bank, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

1.6 INTERNAL CONTROL SYSTEM

Aim and purpose

The ICS comprises all the structures and processes which ensure orderly procedures for operational activities and contribute to the attainment of business goals.

The ICS makes a major contribution towards compliance with legal requirements and internal specifications, the prudential protection of corporate assets, the prevention, reduction and disclosure of errors and irregularities, as well as ensuring that accounts are reliable and complete, that reporting is timely and dependable, and that risk management is appropriate and efficient.

Elements

The ICS comprises the management of financial risk, operational risk, compliance risk and risk associated with financial reporting.

Organisation

The ICS is divided into three levels. The three, organisationally separate levels (lines of defence) are line management, risk monitoring and internal audit.

First level

The first level is ensured through the line management's responsibility to provide verification of its duty of care and orderly business procedures. Organisational units define their structures and procedures so as to ensure that tasks are carried out efficiently and their objectives achieved. To this end, they specify operational goals and control measures to manage the risks they are exposed to in their business activities.

Second level

The second level is risk monitoring. The units responsible (Operational Risk and Security, Compliance, and Risk Management) advise line management in the management of risk in their units. They monitor and report on the appropriateness and efficacy of risk management. In addition, they make their own assessment of the risk situation. They draw up specifications and measures to limit risk, and submit corresponding proposals to executive management.

Third level

Finally, at a third, independent level, the Internal Audit unit examines the appropriateness and efficacy of the ICS, pursuing an approach that is first and foremost risk-oriented.

The Bank Council and, in particular, its Audit Committee and Risk Committee, assess the appropriateness and efficacy of the ICS and satisfy themselves with regard to the security and integrity of the business processes.

Responsibilities of Bank Council and executive management

The Enlarged Governing Board approves strategies for the SNB's business operations.

The Board of Deputies approves the specifications with respect to the ICS and monitors compliance therewith. To this end, it issues directives and specifications on operational management.

Reporting

Once a year, individual ICS reports on financial, operational and compliance risks are submitted to executive management and the Bank Council. In accordance with art. 728a para. 1 (3) CO, any findings by Internal Audit on the ICS for financial reporting are communicated to the Board of Deputies, Enlarged Governing Board and the Bank Council's Audit Committee twice a year.

1.7 RISK MANAGEMENT

Risks

In fulfilling its statutory mandate, the SNB incurs various risks. These include financial risks in the form of market, credit, country and liquidity risks. It is also exposed to operational and compliance risks. These include personal injury, financial losses and reputational damage as a result of inadequate internal processes, incorrect reporting, the lack of or disregard of regulations and rules of conduct, technical failures and the impact of various external events.

Risk assessment

The Bank Council oversees and monitors the conduct of business by the SNB. It is responsible for assessing risk management and monitors its implementation. The Risk Committee and the Audit Committee prepare the business agenda and support the Bank Council in overseeing risk management.

Risk strategy

Each year, the Governing Board determines the investment strategy and issues the investment policy guidelines. In so doing, it determines the framework for the financial risks associated with the investments.

The Enlarged Governing Board approves strategies for business operations and has strategic responsibility for the management of operational and compliance risks. It defines the corresponding guidelines.

Organisation with regard to financial risk

Financial risk associated with investment is continuously monitored by the Risk Management unit. Each quarter, the Governing Board discusses the reports on investment activities and risk management. The detailed reports on risk management are discussed by the Risk Committee of the Bank Council, and the annual report on financial risk is also discussed by the Bank Council. Details of the investment and risk control process can be found in chapter 5 of the accountability report.

Organisation with regard to operational risk

The department heads ensure implementation of the operational risk guidelines issued by the Enlarged Governing Board in their organisational units. Management of operational risk is the responsibility of the line managers.

Operational risk is monitored by the Operational Risk and Security unit. The Board of Deputies is responsible for the management and control of operational risk. It prepares the relevant guidelines, is responsible for their implementation throughout the SNB, and ensures reporting to the Enlarged Governing Board. The Audit Committee discusses the business report on the management of operational risk before the Bank Council takes note of it. The Risk Committee and the Audit Committee are jointly responsible for monitoring operational risk arising from the SNB's investment activities.

Organisation with regard to compliance risk

The department heads also ensure implementation of the compliance risk guidelines issued by the Enlarged Governing Board and the Bank Council in their organisational units. Management of compliance risk is the responsibility of the line managers.

The Compliance unit supports and advises executive management, line managers and staff in the avoidance of compliance risks. It carries out spot checks to monitor adherence to, and the appropriateness of, rules of conduct. In addition, it makes sure that reporting of compliance risks arising from the disregard of appropriate rules of conduct is both timely and appropriate to hierarchical levels. The Compliance unit can approach the Head of the Audit Committee or the President of the Bank Council at any time, should this prove necessary.

ICS for financial reporting

The SNB has extensive control mechanisms in place for the prevention or early identification of errors in financial reporting (accounting procedures and bookkeeping). This ensures that the SNB's financial position is correctly reported. Together, these controls make up the ICS for financial reporting, which is managed by the Central Accounting unit.

In the case of audit objectives relating to proper accounting and financial reporting, the Internal Audit unit conducts spot checks to ascertain whether the corresponding key controls are appropriate and whether they have been performed. Any findings on the ICS for financial reporting are communicated to the Board of Deputies, the Enlarged Governing Board and the Bank Council's Audit Committee twice a year. Among other things, they are used by the Audit Board as a basis for its confirmation in accordance with art. 728a para. 1 (3) CO.

The following table provides an overview of the organisation of risk management.

ORGANISATION OF RISK MANAGEMENT

	Oversight	Guidelines issued by	Supervision
Financial risk	Risk Committee of Bank Council and Bank Council	Governing Board	Risk Management unit
Operational risk	Audit Committee/ Risk Committee of Bank Council and Bank Council	Enlarged Governing Board	Board of Deputies, Operational Risk and Security unit
Compliance risk	Audit Committee of Bank Council and Bank Council	Bank Council and Enlarged Governing Board	Line management, Compliance unit, Operational Risk and Security unit
Risks in financial reporting	Audit Committee of Bank Council and Bank Council	Enlarged Governing Board	Central Accounting unit

1.8 CROSS REFERENCE TABLES

Further information on corporate governance may be found in other sections of the *Annual Report*, on the SNB website, in the NBA, in the 'Organisation regulations' and in the following places:

NBA (SR 951.11)	www.snb.ch, *The SNB, Legal basis, Constitution and laws*
Organisation regulations (SR 951.153)	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Shareholders	www.snb.ch, *Shareholders*
Participation rights	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation*
Listing in share register	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation*
Decision-making quorums	Art. 38 NBA; art. 9 Organisation regulations
General Meeting of Shareholders	Arts. 34–38 NBA; arts. 8–9 Organisation regulations
Regulations on the recognition and representation of shareholders of the Swiss National Bank	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report*, p. 201
Nationality	Art. 40 NBA
Affiliations	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Election and term of office	Art. 39 NBA
Initial and current election	*Annual Report*, p. 201
Internal organisation	Arts. 10 et seq. Organisation regulations
Committees	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Regulations on the Audit Committee, Risk Committee, Compensation Committee, and Nomination Committee; Compensation regulations	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation regulations
Internal control system	*Annual Report*, pp. 134 et seq.; arts. 10 et seq. Organisation regulations
Information tools	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Remuneration	*Annual Report,* p. 183
Code of Conduct	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*

Executive management	www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board*
Members	*Annual Report*, p. 202
Affiliations	www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board*
Election and term of office	Art. 43 NBA
Internal organisation	Arts. 18–24 Organisation regulations
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the acceptance by members of the Enlarged Governing Board of gifts, invitations and third-party considerations	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the compensation of SNB supervisory and executive bodies (Compensation regulations)	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Federal Personnel Act	www.admin.ch, *Bundesrecht, Systematische Rechtssammlung, Landesrecht, 1 Staat – Volk – Behörden, 17 Bundesbehörden, 172.220 Arbeitsverhältnis, 172.220.1 Bundespersonalgesetz vom 24. März 2000 (BPG)* (Not available in English)
Remuneration	*Annual Report*, p. 184
Code of Conduct	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Staff	
Code of Conduct	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	*Annual Report*, pp. 128, 206–209; information for shareholders at www.snb.ch, *Shareholders, Ad hoc announcements – messaging service*
Corporate structure and shareholders	*Annual Report*, pp. 126 et seq., pp. 177–178
Head offices	Art. 3 para. 1 NBA
Ticker symbol / ISIN	SNBN/CH0001319265
Breakdown of capital	*Annual Report*, p. 177
Accounting principles	*Annual Report*, p. 158

2 Resources

2.1 ORGANISATIONAL CHANGES

Organisation

The departments are made up of organisational units that report directly to divisions. Divisions encompass large specialised areas that are covered by several units. They are led by division heads, who report to the department heads.

The divisions making up Department I are the Secretariat General, Economic Affairs, International Monetary Cooperation, and Statistics. Department I also includes Legal Services, Compliance, Human Resources and Pension Benefits, and Premises and Technical Services, which are all organisational units. Internal Audit reports administratively to Department I.

In the course of the bank-wide reorganisation carried out in 2014, Statistics, formerly an organisational unit, was restructured and upgraded to a division as of 1 January 2015.

The International Monetary Cooperation division was also restructured, with its new organisational form taking effect as of 1 January 2016. Thus the target of creating a central unit for the coordination of the SNB's multilateral activities has been achieved.

In addition to the Financial Stability and Cash divisions, Department II includes the Central Accounting, Controlling, Risk Management and Operational Risk and Security units, which report directly to the department head.

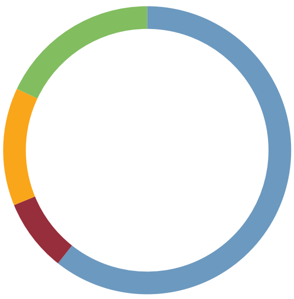
Department III comprises the Money Market and Foreign Exchange, Asset Management, Banking Operations, and Information Technology divisions, as well as the Financial Market Analysis unit and the Singapore office, which report directly to the department head.

The organisational structure is presented on pp. 204–205.

Multi-year strategic initiatives are being implemented in order to optimise the planning and budgeting process. They comprise the areas of resource and performance management, procurement, as well as project and project portfolio management.

HUMAN RESOURCES

Number of employees



- Full-time, men **536**
- Part-time, men **72**
- Full-time, women **117**
- Part-time, women **159**

Total: 884
At year-end 2015

2.2 HUMAN RESOURCES

Number of staff

At the end of 2015, the SNB employed 884 people (including 19 apprentices), which was 16 (or 1.8%) more than in 2014. In terms of full-time equivalents, the number of employees rose by 1.5% to 787.9. The number of full-time equivalents averaged 782. Staff turnover decreased to 4.6% (2014: 5.8%).

An employee survey was conducted in 2015. The participation rate came to over 85% and the outcome was gratifying. Employees exhibited well above-average commitment to the SNB and a very high level of job satisfaction. Areas with development potential will be worked on at various management levels.

The SNB's reputation is largely determined by the integrity, professional skill and behaviour of each and every one of its staff. The associated 'Code of Conduct' was revised in 2015.

2.3 PREMISES

The SNB owns premises in Berne and Zurich for its own use. These are managed according to a long-term strategy.

On 2 February 2015, the first stage of the total renovation of the premises on Bundesplatz in Berne was launched. Prior to that, the employees of the Berne head office had moved to a temporary location at Laupenstrasse 18, which had been refurbished in 2014. In Zurich, planning work for the renovation and conversion of the premises on Fraumünsterstrasse 8 was carried out from February to June 2015. The refurbishment of the newly rented premises for the Zurich computer centre was completed by mid-2015.

2.4 INFORMATION TECHNOLOGY

Information technology

The IT production systems and applications were stable in 2015.

Applications in connection with foreign exchange were updated and renewed. The Business Intelligence unit was expanded in order to meet the rising demands with regard to more effective and efficient evaluation of bank transaction data. To consolidate resources and costs, the degree of automation was increased and numerous functionalities and technologies were standardised and, wherever possible, centralised. Furthermore, measures were taken to fulfil compliance and data protection-related requirements. Analyses were conducted and concepts created to prepare for the introduction of the new SIC architecture and the implementation of the new SIC reporting formats in 2016.

The IT tools for conducting surveys and publishing data for the Statistics division were developed further, with the aim of preparing data storage and processing in line with the new accounting rules for banks, securities dealers, financial groups and conglomerates, as well as renewing the web-based data platform.

The computer centre in Zurich became operational in its new premises according to plan.

2.5 ENVIRONMENT

Environmental management

In its Charter, the SNB undertakes to be careful in its use of natural resources. The annually published environmental report describes the foundations upon which the SNB's environmental management is based, explains its objectives in connection with climate change, provides information on the use of resources and on greenhouse gas emissions and lists the measures aimed at improving its environmental performance.

Electricity consumption per capita increased by 0.5%; energy consumption for heating, by around 2% in 2015.

The SNB and the Canton of Zurich agreed on targets for increasing energy efficiency and reducing carbon dioxide emissions at the Zurich computer centre for 2014–2024.

As a contribution to climate protection, the SNB substitutes part of its natural gas consumption with biogas and also invests in energy-conscious renovations at SNB premises which it uses for its own operations. Since 2011, greenhouse gas emissions that are unavoidable in connection with the SNB's operational activities have been offset by purchasing emission reduction certificates.

3
Changes in bank bodies and management

Bank Council

On 4 December 2015, the Federal Council confirmed Jean Studer as President of the Bank Council until 30 April 2019, when his term of office comes to an end due to the statutory twelve-year limitation applicable for Bank Council members. In addition, it confirmed Olivier Steimer as Vice President of the Bank Council, subject to his re-election as a member of the Bank Council by the General Meeting of Shareholders. The Federal Council also re-appointed Barbara Janom Steiner, Christoph Lengwiler, Shelby du Pasqier and Ernst Stocker as members of the Bank Council for the 2016–2020 term of office. The General Meeting of Shareholders on 29 April 2016 is responsible for re-electing the other members of the Bank Council.

In addition, the Federal Council appointed Christian Vitta as a new member of the Bank Council for the 2016–2020 term of office, as successor to Alfredo Gysi.

Alfredo Gysi is resigning from the Bank Council with effect from the end of April 2016. The SNB thanks Alfredo Gysi for his valuable service over a period of five years.

Audit Board

On 24 April 2015, the General Meeting of Shareholders elected KPMG Ltd as the Audit Board for the 2015–2016 term of office, with Philipp Rickert as auditor in charge.

Governing Board and Enlarged Governing Board

On 1 July 2015, Fritz Zurbrügg, previously Member of the Governing Board, succeeded Jean-Pierre Danthine as Vice Chairman of the Governing Board and Head of Department II.

As the new Member of the Governing Board with effect from 1 July 2015, Andréa M. Maechler assumed the role of Head of Department III.

Bank management

The Bank Council appointed Sébastien Kraenzlin, Head of Banking Operations, to the position of Director with effect from 1 January 2016.

4
Business performance

4.1 ANNUAL RESULT

Summary

The Swiss National Bank (SNB) reported a loss of CHF 23.3 billion for the year 2015 (2014: profit of CHF 38.3 billion).

The loss on foreign currency positions amounted to CHF 19.9 billion. A valuation loss of CHF 4.2 billion was recorded on gold holdings. The profit on Swiss franc positions was CHF 1.2 billion.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 1.4 billion. Taken together, the annual loss and allocation to provisions totalling CHF 24.6 billion are less than the distribution reserve, which amounts to CHF 27.5 billion. Thus, despite the annual loss, the resulting net profit will allow a dividend payment to shareholders of CHF 1.5 million as well as the ordinary profit distribution of CHF 1 billion to the Confederation and the cantons. The distribution reserve after appropriation of profit will amount to CHF 1.9 billion.

Valuation loss on gold holdings

At CHF 34,103 per kilogram, the price of gold was 11% lower than at the end of 2014 (CHF 38,105). This gave rise to a valuation loss of CHF 4.2 billion on the unchanged holdings of 1,040 tonnes of gold (2014: valuation gain of CHF 4.1 billion).

Loss on foreign currency positions

Overall, the loss on foreign currency positions was CHF 19.9 billion (2014: profit of CHF 34.5 billion).

The appreciation of the Swiss franc resulted in total exchange rate losses of CHF 26.4 billion. Interest income amounted to CHF 7.8 billion and dividend income to CHF 2.2 billion, however. Movements in bond prices differed from those in share prices. A loss of CHF 5.1 billion was recorded on interest-bearing paper and instruments. By contrast, equity securities and instruments made a positive contribution of CHF 1.6 billion to the net result.

Profit on Swiss franc positions

The profit on Swiss franc positions, which totalled CHF 1,245.0 million (2014: 276.6 million), essentially comprised CHF 1,163.9 million of negative interest charged on sight deposits since 22 January 2015, interest income of CHF 66.5 million and price gains of CHF 24.4 million.

Operating expenses

Operating expenses are made up of banknote and personnel expenses, general overheads and depreciation on the SNB's tangible assets.

Operating expenses decreased by CHF 129.8 million to CHF 401.2 million. This decline compared to the previous year is due to a one-off expense of CHF 156.7 million in 2014 arising from a change in accounting principles for banknote stocks.

Outlook

The SNB's financial result depends largely on developments in the gold, foreign exchange and capital markets. Consequently, substantial fluctuations in the quarterly and annual results are to be expected. As the SNB has stressed on several occasions, in view of the considerable volatility in its results, it does not exclude the possibility that, in some years, profit distributions will have to be suspended completely, or can only be carried out on a reduced scale.

4.2 PROVISIONS FOR CURRENCY RESERVES

Purpose

In accordance with art. 30 para. 1 of the National Bank Act (NBA), the SNB sets up provisions to maintain the currency reserves at the level necessary for monetary policy. Independent of this financing function, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They act as a buffer against all the different forms of loss risk at the SNB.

Level of provisions

When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA).

Allocation from 2015 annual result

In its annual review, the Bank Council resolved that it would once again apply twice the average nominal GDP growth rate for the previous five years as the basis for calculating the allocation for the 2015 financial year, given the high market risks present in the SNB balance sheet. The allocation to the provisions therefore amounts to CHF 1.4 billion.

The figure is lower than in the previous year because the average period for the calculation of the allocation upon which the 2015 financial year is based includes several years with low nominal GDP growth rates. At 1.2%, average nominal GDP growth was therefore lower than in the relevant previous period (1.8%).

PROVISIONS

Developments in last five years

	Growth in nominal GDP In percent (average period)[1]	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2011[2]	3.5 (2005–2009)	3 154.3	48 215.6
2012[2]	3.7 (2006–2010)	3 568.0	51 783.6
2013[2]	2.9 (2007–2011)	3 003.4	54 787.0
2014[2, 3]	1.8 (2008–2012)	1 972.3	56 759.3
2015[2, 3]	1.2 (2009–2013)	1 362.2	58 121.5

1 GDP figures are revised on a regular basis. This means that the latest available growth rates may deviate from reported figures. This does not affect the allocation.
2 Doubling of allocation in accordance with Bank Council resolution.
3 Since 2014, nominal GDP growth has been based on the provisions of the European System of National and Regional Accounts of 2010 (ESA 2010).

Distributable annual result and net profit

The portion of the annual result remaining after the allocation to the currency reserves corresponds to the distributable profit as per art. 30 para. 2 NBA. Together with the distribution reserve, this makes up the net profit/net loss (art. 31 NBA). If there is a net profit, this is used for distributions.

For 2015, the distributable annual result amounts to CHF –24.6 billion. The net profit is CHF 2.9 billion.

4.3 DIVIDEND AND PROFIT DISTRIBUTION

Dividends

Art. 31 para. 1 NBA specifies that a dividend not exceeding 6% of the share capital shall be paid from the net profit, with the decision on this matter being taken by the General Meeting of Shareholders on the basis of a Bank Council proposal.

Profit distribution to Confederation and cantons

In accordance with art. 31 para. 2 NBA, one-third of the SNB's net profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons.

Distribution agreement

The amount of the annual profit distribution to the Confederation and the cantons is laid down in an agreement between the Federal Department of Finance (FDF) and the SNB. Given the considerable fluctuations in the SNB's earnings, the NBA stipulates that profit distribution be maintained at a steady level. Consequently, a constant flow of payments over several years is provided for in the agreement and a distribution reserve carried on the balance sheet.

The current agreement covers the profit distributions for the financial years 2011–2015. The annual distribution amounts to CHF 1 billion and will be made only if it does not render the distribution reserve negative. If the distribution reserve after appropriation of profit exceeds CHF 10 billion, the distribution for the financial year in question is increased. In this case, the amount to be distributed is agreed between the SNB and the FDF, and the cantons are informed.

A successor agreement is being drafted in 2016.

Distribution for 2015

For 2015, after the allocation to the provisions for currency reserves, the SNB is distributing CHF 1 billion to the Confederation and the cantons.

Following last year's profit appropriation, the distribution reserve showed a value of CHF 27.5 billion. After offsetting against the annual result and the profit appropriation for 2015, the distribution reserve will amount to CHF 1.9 billion.

Distribution reserve

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2011	2012	2013	2014	2015[2]
Annual result	**13 028.9**	**5 956.1**	**–9 076.6**	**38 312.9**	**–23 250.6**
– Allocation to provisions for currency reserves	–3 154.3	–3 568.0	–3 003.4	–1 972.3	–1 362.2
= Distributable annual result	**9 874.7**	**2 388.1**	**–12 080.0**	**36 340.6**	**–24 612.8**
+ Distribution reserve before appropriation of profit[1]	–5 000.0	3 873.2	5 259.8	–6 820.2	27 518.8
= Net profit/net loss	**4 874.7**	**6 261.3**	**–6 820.2**	**29 520.3**	**2 906.0**
– Payment of a dividend of 6%	–1.5	–1.5	–	–1.5	–1.5
– Profit distribution to Confederation and cantons	–1 000.0	–1 000.0	–	–2 000.0	–1 000.0
= Distribution reserve after appropriation of profit	**3 873.2**	**5 259.8**	**–6 820.2**	**27 518.8**	**1 904.5**

1 Year-end total as per balance sheet.
2 In accordance with proposed appropriation of profit.

4.4 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

The following summary provides an overview of the movements in key balance sheet positions over the past five years.

At the end of 2015, the SNB's balance sheet total stood at CHF 640 billion, CHF 79 billion higher than a year earlier. This development was principally a result of monetary policy measures taken to counter the strong Swiss franc.

On the assets side of the balance sheet, these measures were mainly reflected in the rise in foreign currency investments. On the liabilities side of the balance sheet, monetary policy measures were primarily reflected in the rise in total sight deposits.

YEAR-END VALUES OF BALANCE SHEET POSITIONS

In CHF millions

	2011	2012	2013	2014	2015
Gold holdings	48 662	50 768	35 562	39 630	35 467
Claims from gold transactions	717	4	3	–	–
Foreign currency investments	257 504	432 209	443 275	510 062	593 234
Reserve position in the IMF	3 135	2 804	2 295	2 037	1 608
International payment instruments	4 621	4 249	4 294	4 414	4 707
Monetary assistance loans	301	279	244	213	170
Claims from US dollar repo transactions	371	–	–	–	–
Claims from Swiss franc repo transactions	18 468	–	–	–	–
Swiss franc securities	3 675	3 757	3 690	3 978	3 972
Loan to stabilisation fund	7 645	4 378	–	–	–
Banknote stocks	130	126	157	–	–
Tangible assets	325	452	433	417	397
Participations	147	142	134	134	136
Other assets	377	267	295	316	461
Total assets	**346 079**	**499 434**	**490 382**	**561 202**	**640 152**
Banknotes in circulation	55 729	61 801	65 766	67 596	72 882
Sight deposits of domestic banks	180 721	281 814	317 132	328 006	402 317
Liabilities towards the Confederation	5 648	9 008	10 482	9 046	10 931
Sight deposits of foreign banks and institutions	1 884	11 958	11 523	17 487	25 621
Other sight liabilities	28 448	66 951	24 774	33 127	30 166
Liabilities from Swiss franc repo transactions	–	–	–	–	–
SNB debt certificates	14 719	–	–	–	–
Other term liabilities	366	–	–	–	–
Foreign currency liabilities	552	5 019	8 074	14 753	32 521
Counterpart of SDRs allocated by the IMF	4 735	4 613	4 511	4 727	4 548
Other liabilities	155	193	98	155	114
Operating provisions	7	5	31	–	–
Equity					
Provisions for currency reserves[1]	45 061	48 216	51 784	54 787	56 759
Share capital	25	25	25	25	25
Distribution reserve[1]	–5 000	3 873	5 260	–6 820	27 519
Annual result	13 029	5 956	–9 077	38 313	–23 251
Total equity	**53 115**	**58 070**	**47 992**	**86 305**	**61 053**
Total liabilities	**346 079**	**499 434**	**490 382**	**561 202**	**640 152**

1 Before appropriation of profit, cf. p. 156.

Annual financial statements

1
Balance sheet as at 31 December 2015

ASSETS

In CHF millions

	Item in Notes	31.12.2015	31.12.2014	Change
Gold holdings	01	35 466.7	39 629.6	−4 162.9
Foreign currency investments	02, 26	593 234.1	510 062.4	+83 171.7
Reserve position in the IMF	03, 24	1 608.4	2 037.3	−428.9
International payment instruments	04, 24	4 707.3	4 413.8	+293.5
Monetary assistance loans	05, 24	169.9	213.3	−43.4
Claims from Swiss franc repo transactions	23	–	–	–
Swiss franc securities	06	3 972.4	3 978.3	−5.9
Tangible assets	07	396.7	417.4	−20.7
Participations	08, 25	135.5	133.5	+2.0
Other assets	09, 27	460.8	316.2	+144.6
Total assets		**640 151.8**	**561 201.9**	**+78 949.9**

LIABILITIES

In CHF millions

	Item in Notes	31.12.2015	31.12.2014	Change
Banknotes in circulation	10	72 881.9	67 595.8	+5 286.1
Sight deposits of domestic banks		402 316.5	328 006.2	+74 310.3
Liabilities towards the Confederation	11	10 930.9	9 046.4	+1 884.5
Sight deposits of foreign banks and institutions		25 621.4	17 486.9	+8 134.5
Other sight liabilities	12	30 165.5	33 126.8	−2 961.3
Liabilities from Swiss franc repo transactions		–	–	–
SNB debt certificates		–	–	–
Foreign currency liabilities	13, 26	32 521.4	14 753.1	+17 768.3
Counterpart of SDRs allocated by the IMF	04	4 547.7	4 727.2	−179.5
Other liabilities	14, 27	113.9	154.8	−40.9
Equity				
Provisions for currency reserves[1]		56 759.3	54 787.0	+1 972.3
Share capital	15	25.0	25.0	–
Distribution reserve[1]		27 518.8	−6 820.2	+34 339.0
Annual result		−23 250.6	38 312.9	−61 563.5
Total equity		**61 052.5**	**86 304.6**	**−25 252.1**
Total liabilities		**640 151.8**	**561 201.9**	**+78 949.9**

1 Before appropriation of profit, cf. p. 156.

2
Income statement and appropriation of profit for 2015

INCOME STATEMENT

In CHF millions

	Item in Notes	2015	2014	Change
Net result from gold		–4 162.9	4 067.4	–8 230.3
Net result from foreign currency positions	16	–19 943.0	34 487.7	–54 430.7
Net result from Swiss franc positions	17	1 245.0	276.6	+968.4
Net result, other	18	11.6	12.1	–0.5
Gross income		**–22 849.3**	**38 843.8**	**–61 693.1**
Banknote expenses	19	–86.9	–233.6	+146.7
Personnel expenses	20, 21	–157.7	–150.2	–7.5
General overheads	22	–117.6	–109.6	–8.0
Depreciation on tangible assets	07	–39.0	–37.6	–1.4
Annual result		**–23 250.6**	**38 312.9**	**–61 563.5**

APPROPRIATION OF PROFIT

In CHF millions

	2015	2014	Change
– Allocation to provisions for currency reserves	–1 362.2	–1 972.3	+610.1
= Distributable annual result	**–24 612.8**	**36 340.6**	**–60 953.4**
+ Profit/loss carried forward (distribution reserve before appropriation of profit)	27 518.8	–6 820.2	+34 339.0
= Net profit	**2 906.0**	**29 520.3**	**–26 614.3**
– Payment of a dividend of 6%	–1.5	–1.5	–
– Profit distribution to Confederation and cantons	–1 000.0	–2 000.0	+1 000.0
= Balance carried forward to following year's financial statements (distribution reserve after appropriation of profit)	**1 904.5**	**27 518.8**	**–25 614.3**

3
Changes in equity

In CHF millions

	Share capital	Provisions for currency reserves	Distribution reserve	Annual result	Total
Equity as at 1 January 2014	**25.0**	**51 783.6**	**5 259.8**	**–9 076.6**	**47 991.8**
Endowment of provisions for currency reserves pursuant to NBA		3 003.4		–3 003.4	
Release from distribution reserve			–12 080.0	12 080.0	
Distribution of dividends to shareholders				–	–
Profit distribution to Confederation and cantons				–	–
Annual result				38 312.9	38 312.9
Equity as at 31 December 2014 (before appropriation of profit)	**25.0**	**54 787.0**	**–6 820.2**	**38 312.9**	**86 304.6**
Equity as at 1 January 2015	**25.0**	**54 787.0**	**–6 820.2**	**38 312.9**	**86 304.6**
Endowment of provisions for currency reserves pursuant to NBA		1 972.3		–1 972.3	
Allocation to distribution reserve			34 339.1	–34 339.1	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–2 000.0	–2 000.0
Annual result				–23 250.6	–23 250.6
Equity as at 31 December 2015 (before appropriation of profit)	**25.0**	**56 759.3**	**27 518.8**	**–23 250.6**	**61 052.5**
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		1 362.2		–1 362.2	
Release from distribution reserve			–25 614.3	25 614.3	
Distribution of dividends to shareholders				–1.5	–1.5
Profit distribution to Confederation and cantons				–1 000.0	–1 000.0
Equity after appropriation of profit	**25.0**	**58 121.5**	**1 904.5**	**–**	**60 051.0**

4
Notes to the annual financial statements as at 31 December 2015

4.1 ACCOUNTING AND VALUATION PRINCIPLES

GENERAL

Basic principles

The SNB is a special-statute joint-stock company with head offices in Berne and Zurich. This year's financial statements have been drawn up in accordance with the provisions of the National Bank Act (NBA) and the Swiss Code of Obligations (CO) as well as the accounting principles detailed in these notes. The statements present a true and fair view of the financial position and the results of operations of the Swiss National Bank (SNB). Unless otherwise stated, the accounting principles are based on the Swiss GAAP FER standards (Accounting and Reporting Recommendations). Departures from Swiss GAAP FER occur only if an accounting principle runs counter to the provisions of the NBA or if the special nature of the SNB needs to be taken into account. In a departure from Swiss GAAP FER, no cash flow statement has been prepared. The structure and designation of the items in the annual financial statements take into consideration the special character of the business conducted at a central bank.

At its meeting of 4 March 2016, the Bank Council approved the 2015 financial report for submission to the Federal Council and the General Meeting of Shareholders.

Changes from previous year

Apart from waiving the preparation of a cash flow statement, there were no changes to the accounting and valuation principles compared with the previous year.

Cash flow statement

In accordance with art. 29 NBA, the SNB is exempt from the requirement to prepare a cash flow statement.

Financial liabilities

Swiss GAAP FER 31 requires that the conditions for financial liabilities be disclosed. Given the special status of a central bank, such a disclosure is of limited informative value. The majority of the liabilities presented directly reflect the implementation of the SNB's monetary policy, i.e. the provision of liquidity to or the absorption of liquidity from the money market. By virtue of its exclusive right to issue banknotes, the SNB runs no liquidity or refinancing risks from liabilities in Swiss francs. Because the SNB can create the necessary liquidity and determine the level and structure of its financing itself, it is always in a position to meet its obligations. In light of this, the SNB will not be publishing a detailed report of the conditions which apply to its financial liabilities.

Segment information

The SNB operates exclusively as a central bank. For this reason, the annual financial statements do not include any segment information.

Consolidated financial statements

The SNB does not hold any material participating interests which are subject to consolidation according to Swiss GAAP FER 30. Therefore, it does not draw up consolidated financial statements.

Recording of transactions

The SNB's business transactions are recorded and valued on the day the transaction is concluded (trade date accounting). However, they are only posted on the value date. Transactions concluded by the balance sheet date with a value date in the future are stated under off-balance-sheet business.

Accrual accounting

Expenses are recognised in the financial year in which they are incurred, and income in the financial year in which it is earned.

Profit tax

Under art. 8 NBA, the SNB is exempt from taxation on profits. Tax exemption applies both to direct federal taxes and to cantonal and municipal taxes.

Transactions with related parties

The rights of the SNB's shareholders are restricted by law. The shareholders cannot exert any influence on financial or operational decisions. Banking services provided to members of the executive management are carried out at normal banking industry conditions. No banking services are provided to members of the Bank Council.

Foreign currency translation

Foreign currency positions are translated at year-end rates. Income and expenses in foreign currency are translated at the exchange rates applicable at the time when such income and expenses were posted to the accounts. All valuation changes are reported in the income statement.

BALANCE SHEET AND INCOME STATEMENT

Gold holdings

Gold holdings consist of gold ingots and gold coins. The gold is stored in Switzerland (roughly 70%) and abroad (roughly 30%). These holdings are stated at market value. Valuation gains and losses are reported under net result from gold.

Foreign currency investments

Negotiable securities (money market instruments, bonds and equities) as well as credit balances (sight deposits and call money, time deposits) and claims from foreign currency repo transactions are recorded under foreign currency investments. Securities, which make up the bulk of the foreign currency investments, are stated at market value inclusive of accrued interest, while credit balances and claims from repo transactions are stated at nominal value inclusive of accrued interest. Negative interest is recorded as a reduction of interest income.

Gains and losses from revaluation at market value, interest income and expenses, dividends and exchange rate gains and losses are stated under net result from foreign currency positions.

The management of foreign currency investments also includes securities lending transactions. Securities lent by the SNB from its own portfolio are secured by appropriate collateral. The SNB receives interest on the securities loaned. Loaned securities remain in the foreign currency investments item and are disclosed in the notes to the annual financial statements. Interest income from securities lending is stated under net result from foreign currency positions.

Reserve position in the IMF

The reserve position in the International Monetary Fund (IMF) consists of the Swiss quota less the IMF's sight deposit account balance at the SNB as well as of claims based on the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB).

The quota is Switzerland's portion of the IMF capital which is financed by the SNB. It is denominated in Special Drawing Rights (SDRs), the IMF's unit of account. Part of the quota has not been transferred to the IMF, but remains in a sight deposit account. The IMF can dispose of these Swiss franc assets at any time.

With the NAB and GAB, the IMF can – in the event of a crisis or if its own resources are in short supply – draw on credit lines from participants in these arrangements. Credit lines not drawn by the IMF are recorded as irrevocable lending commitments under the SNB's off-balance-sheet business.

The reserve position is stated at nominal value inclusive of accrued interest. The income from interest on the reserve position as well as the exchange rate gains and losses from a revaluation of the reserve position are stated under net result from foreign currency positions.

International payment instruments

International payment instruments comprise sight deposits in SDRs with the IMF. These deposits result from the allocation of SDRs and the purchase and sale of SDRs under the voluntary trading arrangement with the IMF. Sight deposits in SDRs are stated at nominal value inclusive of accrued interest. They attract interest at market conditions. Interest income and exchange rate gains and losses are stated under net result from foreign currency positions.

The liability entered into with the allocation is stated on the liabilities side of the balance sheet under counterpart of SDRs allocated by the IMF.

Monetary assistance loans

On the basis of the Monetary Assistance Act, Switzerland can participate in multilateral assistance operations aimed at preventing or remedying serious disruptions to the international monetary system or be involved in special funds or other IMF facilities, particularly those in favour of low-income countries. In these two cases, the Confederation can instruct the SNB to grant a loan. In return, the Confederation guarantees the SNB the interest and principal repayment on the loan.

Currently outstanding claims include those granted under the commitment of loan resources to the Poverty Reduction and Growth Trust (PRGT). This is a fiduciary fund administered by the IMF which finances long-term loans at subsidised interest rates to low-income countries. These loans are stated at nominal value inclusive of accrued interest. Interest income and exchange rate gains and losses are stated under net result from foreign currency positions.

Claims from Swiss franc repo transactions

The SNB uses repo transactions in Swiss francs to provide the Swiss franc money market with liquidity or to withdraw liquidity from it.

Claims from repo transactions are fully backed by collateral eligible for SNB repos. They are stated at nominal value inclusive of accrued interest. Interest income is stated under net result from Swiss franc positions.

At the end of 2015, there were no outstanding claims from Swiss franc repo transactions.

Swiss franc securities

Swiss franc securities are made up exclusively of negotiable bonds. They are stated at market value inclusive of accrued interest. Valuation gains and losses and interest income are stated under net result from Swiss franc positions.

Tangible assets

Tangible assets comprise land and buildings, fixed assets under construction, software, and sundry tangible assets. For individual purchases, the minimum value for recognition as an asset is CHF 20,000. Other investments resulting in an increase in value (projects) are recognised as an asset from an amount of CHF 100,000. Tangible assets are stated at acquisition cost less required depreciation.

PERIOD OF DEPRECIATION

Land and buildings	
Land	No depreciation
Buildings (building structure)	50 years
Conversions (technical equipment and interior finishing work)	10 years
Fixed assets under construction[1]	No depreciation
Software	3 years
Sundry tangible assets	3–12 years

1 Finished fixed assets are reclassified under the corresponding tangible assets category once they are in operational use.

The recoverable value is checked periodically. If this results in a decrease in value, an impairment loss is recorded. Scheduled and unscheduled depreciations are reported in the income statement under depreciation on tangible assets.

Profits and losses from the sale of tangible assets are stated under net result, other.

Participations

In principle, participations are valued at acquisition cost less required value adjustments. However, the participation in Orell Füssli Holding Ltd is valued on the basis of the pro rata book value of equity. Income from participations is stated under net result, other.

Derivative financial instruments

The SNB uses forward foreign exchange transactions (including foreign exchange swaps), foreign exchange options, credit derivatives, futures and interest rate swaps to manage its foreign currency investments. These are used to manage positioning with regard to shares, interest rates, credit risk and currencies (cf. also accountability report, chapter 5.4). Whenever possible, derivative financial instruments are stated at market value. If no market value is available, fair value is determined in accordance with generally recognised actuarial methods. Positive or negative replacement values are stated under other assets or other liabilities respectively. Valuation changes are recorded in the income statement and stated under net result from foreign currency positions.

Accrued expenses and deferred income

The SNB does not state accrued expenses and deferred income as separate items in its balance sheet. For materiality reasons, they are reported under other assets or other liabilities, and are disclosed in the notes to the accounts.

Banknotes in circulation

The banknotes in circulation item shows the nominal value of all the banknotes issued from the current series as well as from recalled, still exchangeable series.

Sight deposits of domestic banks

Sight deposit account balances of domestic banks in Swiss francs form the basis on which the SNB steers monetary policy. They also facilitate the settlement of cashless payments in Switzerland. These balances are stated at nominal value. The SNB can apply a positive or negative interest on sight deposits. A negative interest is applied on balances that exceed a given exemption threshold, the level of which is to be determined by the SNB. A negative interest rate has applied on sight deposits since 22 January 2015. In 2014, they did not bear interest. Interest income is recorded under net result from Swiss franc positions.

Liabilities towards the Confederation

The SNB holds a sight deposit account in Swiss francs for the Confederation. This account did not bear interest in 2015 and 2014. In addition, the Confederation may place time deposits with the SNB at market rates. The liabilities towards the Confederation are stated at nominal value.

Sight deposits of foreign banks and institutions

The SNB holds sight deposits for foreign banks and institutions which facilitate payment transactions in Swiss francs. The accounting and valuation principles are the same as those for sight deposits of domestic banks.

Other sight liabilities

The main components in other sight liabilities in Swiss francs are sight deposits of non-banks, the SNB pension fund’s account and the accounts of active and retired SNB staff members.

The accounting and valuation principles for non-banks are the same as those for sight deposits of domestic banks.

The SNB pension fund account is stated at nominal value; the rate of negative interest applied is the same as that on sight deposits. In 2014, the account bore interest. Interest income is stated under net result from Swiss franc positions.

Accounts of active and retired staff members are stated at nominal value inclusive of accrued interest. These accounts bear interest. Interest expenses are stated under net result from Swiss franc positions.

Liabilities from Swiss franc repo transactions

The SNB uses repo transactions in Swiss francs to provide the Swiss franc money market with liquidity or to withdraw liquidity from it.

Liabilities arising from repo transactions are stated at nominal value inclusive of accrued interest. Interest expenses are stated under net result from Swiss franc positions.

At the end of 2015, there were no outstanding liabilities from Swiss franc repo transactions.

SNB debt certificates

To absorb liquidity from the market, the National Bank can issue its own, interest-bearing debt certificates (SNB Bills) in Swiss francs. Money market management requirements dictate the frequency, term and amount of these issues. SNB Bills are valued at issue price plus cumulative discount accretion (i.e. the discount is amortised over the term of the issue). Interest expenses are stated under net result from Swiss franc positions.

At the end of 2015, there were no SNB Bills outstanding.

Foreign currency liabilities

Foreign currency liabilities comprise different sight liabilities and short-term term liabilities as well as short-term repo transactions related to the management of foreign currency investments. The latter are carried out at market conditions. These repo transactions (temporary transfer of securities against sight deposits, with reverse settlement at maturity) result in an increase in the balance sheet total. On the one hand, the securities remain on the SNB's books, while on the other, the cash received as well as the obligation to repay it at maturity are stated in the balance sheet. Foreign currency liabilities are stated at nominal value inclusive of accrued interest. Interest expenses and exchange rate gains and losses are stated under net result from foreign currency positions. Negative interest is recorded as a reduction of interest expenses.

Counterpart of SDRs allocated by the IMF

This item comprises the liability vis-à-vis the IMF for the SDRs allocated to Switzerland. The counterpart item attracts the same rate of interest as the SDRs on the assets side of the balance sheet. Interest expenses and exchange rate gains and losses are stated under net result from foreign currency positions.

Operating provisions

For all identifiable obligations resulting from past events, provisions are recognised in accordance with the principle of prudent evaluation.

At the end of 2015, there were no outstanding liabilities for operating provisions.

Provisions for currency reserves

Art. 30 para. 1 NBA stipulates that the SNB set up provisions permitting it to maintain the currency reserves at a level necessary for monetary policy. In so doing, it must take into account economic developments in Switzerland. These special-law provisions are equity-like in nature and are incorporated in the 'Changes in equity' table (p. 157). The allocation is made as part of the profit appropriation. The Bank Council decides annually on the level of these provisions.

Distribution reserve

With the exception of the dividend which – pursuant to the NBA – may not exceed 6% of the share capital, the Confederation and the cantons are entitled to the SNB's remaining profit after adequate provisions for currency reserves have been set aside. To achieve a steady flow of payments in the medium term, the annual profit distributions are fixed in advance for a certain period in an agreement concluded between the Federal Department of Finance and the SNB. The distribution reserve contains profits that have not yet been distributed. It is offset against losses and can therefore also be negative.

Pension fund

The SNB's pension plans are incorporated into one pension fund scheme under the defined contribution system. In accordance with Swiss GAAP FER 16, any share of actuarial surplus or deficit is shown on the assets side of the balance sheet or reported as a liability.

Events after the balance sheet date

There are no events after the balance sheet date which need to be mentioned or considered in the 2015 annual financial statements.

Valuation rates

VALUATION RATES

	31.12.2015 In CHF	31.12.2014 In CHF	Change In percent
1 euro (EUR)	1.0861	1.2024	–9.7
1 US dollar (USD)	0.9981	0.9923	+0.6
100 yen (JPY)	0.8297	0.8300	0.0
1 pound sterling (GBP)	1.4771	1.5459	–4.5
1 Canadian dollar (CAD)	0.7197	0.8557	–15.9
1 Australian dollar (AUD)	0.7304	0.8113	–10.0
100 South Korean won (KRW)	0.0848	0.0910	–6.8
100 Danish kroner (DKK)	14.5538	16.1476	–9.9
100 Swedish kronor (SEK)	11.8522	12.7520	–7.1
100 Chinese yuan (CNY)	15.3672	15.9909	–3.9
1 Singapore dollar (SGD)	0.7051	0.7498	–6.0
1 Special Drawing Right (SDR)	1.3831	1.4377	–3.8
1 kilogram of gold	34 102.64	38 105.48	–10.5

4.2 NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

Item 01

GOLD HOLDINGS

Breakdown by type

		31.12.2015		31.12.2014
	In tonnes	In CHF millions	In tonnes	In CHF millions
Gold ingots	1 001.0	34 135.5	1 001.0	38 142.2
Gold coins	39.0	1 331.2	39.0	1 487.4
Total	**1 040.0**	**35 466.7**	**1 040.0**	**39 629.6**

FOREIGN CURRENCY INVESTMENTS

Item 02

Breakdown by investment type in CHF millions

	31.12.2015	31.12.2014	Change
Sight deposits and call money	6 906.3	17 524.2	−10 617.9
Time deposits	–	4 809.3	−4 809.3
Claims from repo transactions	33 686.6	14 932.0	+18 754.6
Money market instruments	11 561.1	11 263.3	+297.8
Bonds[1]	441 547.0	388 109.2	+53 437.8
Equities	99 533.1	73 424.4	+26 108.7
Total	**593 234.1**	**510 062.4**	**+83 171.7**

1 Of which CHF 683.7 million (2014: CHF 836.4 million) lent under securities lending operations.

Breakdown by issuer and borrower category in CHF millions

	31.12.2015	31.12.2014	Change
Governments	448 351.3	377 423.0	+70 928.3
Monetary institutions[1]	10 202.0	26 652.9	−16 450.9
Corporations	134 680.8	105 986.5	+28 694.3
Total	**593 234.1**	**510 062.4**	**+83 171.7**

1 BIS, central banks and multilateral development banks.

Breakdown by currency[1] in CHF millions

	31.12.2015	31.12.2014	Change
EUR	254 553.1	236 360.1	+18 193.0
USD	193 535.8	147 214.1	+46 321.7
JPY	46 198.1	39 310.1	+6 888.0
GBP	42 988.3	34 222.7	+8 765.6
CAD	18 082.8	20 949.6	−2 866.8
AUD	8 492.0	9 603.7	−1 111.7
KRW	8 452.2	6 873.1	+1 579.1
DKK	6 656.0	7 235.0	−579.0
SEK	2 808.0	3 128.8	−320.8
CNY	2 699.1	–	+2 699.1
SGD	2 598.7	2 892.6	−293.9
Other	6 169.8	2 272.7	+3 897.1
Total	**593 234.1**	**510 062.4**	**+83 171.7**

1 Excluding foreign exchange derivatives.

Item 03

RESERVE POSITION IN THE IMF

In CHF millions

	31.12.2015	31.12.2014	Change
Swiss quota in the IMF[1]	4 783.5	4 972.3	−188.8
Less: IMF's Swiss franc sight deposit at the SNB[2]	−4 637.2	−4 815.4	+178.2
Claim from participation in the IMF	**146.2**	**156.9**	**−10.7**
Loan based on New Arrangements to Borrow (NAB)	1 462.2	1 880.4	−418.2
Total reserve position in the IMF	**1 608.4**	**2 037.3**	**−428.9**

1 SDR 3,458.5 million; change due entirely to exchange rates.
2 Corresponds to the untransferred portion of the quota.

Details: New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB)[1] in CHF millions

	31.12.2015	31.12.2014	Change
Lending commitment[2]	15 083.3	15 678.7	−595.4
Amount drawn	1 462.2	1 880.4	−418.2
Amount not drawn	13 621.1	13 798.3	−177.2

1 Maximum lending commitments totalling SDR 10,905 million, arising from liabilities from NAB and GAB, in favour of the IMF for special cases; revolving and without a federal guarantee (cf. accountability report, chapter 7.2.1). The GAB in the amount of SDR 1,020 million can only be activated if agreement has not been reached under the NAB.
2 Change due entirely to exchange rates.

INTERNATIONAL PAYMENT INSTRUMENTS

Item 04

In CHF millions

	31.12.2015	31.12.2014	Change
SDRs from allocation[1]	4 547.6	4 727.2	–179.6
SDRs purchased/sold (net)	159.7	–313.4	+473.1
Total	**4 707.3**	**4 413.8**	**+293.5**

1 Corresponds to the IMF's allocation of SDR 3,288 million. The liability entered into with the allocation is stated in the balance sheet under counterpart of SDRs allocated by the IMF.

Details: Exchange arrangement for international payment instruments (voluntary trading arrangement)[1]
in CHF millions

	31.12.2015	31.12.2014	Change
Purchase/sale commitment[2]	2 273.8	2 363.6	–89.8
SDRs purchased	–159.7	–	–159.7
SDRs sold	–	313.4	–313.4
Total commitment[3]	2 114.2	2 677.0	–562.8

1 The SNB has committed to purchase or sell SDRs against foreign currencies (USD, EUR) up to an agreed maximum of SDR 1,644 million.
2 Change due entirely to exchange rates.
3 Maximum purchase commitment.

Item 05

MONETARY ASSISTANCE LOANS

In CHF millions

	31.12.2015	31.12.2014	Change
Claims from PRGT loan[1]	19.3	–	+19.3
Claims from interim PRGT loan[1]	150.6	213.3	−62.7
Total	**169.9**	**213.3**	**−43.4**

1 Poverty Reduction and Growth Trust of the IMF.

Details: Lending commitment to PRGT and interim PRGT in CHF millions

	31.12.2015	31.12.2014	Change
Lending commitment to PRGT[1, 2]	691.6	718.9	−27.3
Amount drawn	19.3	–	+19.3
Amount repaid	–	–	–
Claims[3]	19.3	–	+19.3
Amount not yet drawn	672.3	718.9	−46.6
Lending commitment to interim PRGT[1, 2]	345.8	359.4	−13.6
Amount drawn	345.8	359.4	−13.6
Amount repaid	195.3	146.4	+48.9
Claims[3]	150.6	213.3	−62.7
Amount not yet drawn	–	–	–

1 Poverty Reduction and Growth Trust; limited-term lending commitment to the IMF's trust fund amounting to SDR 500 million (PRGT) or SDR 250 million (interim PRGT); not revolving and with a federally guaranteed repayment of principal and payment of interest.
2 Change due entirely to exchange rates.
3 Including accrued interest.

SWISS FRANC SECURITIES

Item 06

Breakdown by borrower category in CHF millions

	31.12.2015	31.12.2014	Change
Governments	1 785.1	1 827.1	−42.0
Corporations	2 187.3	2 151.2	+36.1
Total	**3 972.4**	**3 978.3**	**−5.9**

Breakdown of *governments* borrower category in CHF millions

	31.12.2015	31.12.2014	Change
Confederation	1 052.9	1 070.9	−18.0
Cantons and municipalities	531.5	521.5	+10.0
Foreign states[1]	200.7	234.7	−34.0
Total	**1 785.1**	**1 827.1**	**−42.0**

1 Including public authorities.

Breakdown of *corporations* borrower category in CHF millions

	31.12.2015	31.12.2014	Change
Domestic mortgage bond institutions	1 247.9	1 109.3	+138.6
Other domestic corporations[1]	82.2	77.9	+4.3
Foreign corporations[2]	857.1	964.1	−107.0
Total	**2 187.3**	**2 151.2**	**+36.1**

1 International organisations with their head office in Switzerland.
2 Banks, international organisations and other corporations.

Item 07

TANGIBLE ASSETS

In CHF millions

	Land and buildings[1]	Fixed assets under con-struction	Software	Sundry tangible assets[2]	Total
Historical cost					
1 January 2015	642.0	3.6	57.6	71.2	774.4
Additions	–	2.7	11.1	4.6	18.3
Disposals	–22.7	–	–3.3	–11.1	–37.0
Reclassified	–	–3.6	–	3.6	
31 December 2015	619.4	2.7	65.4	68.3	755.7
Cumulative value adjustments					
1 January 2015	263.7		43.3	50.0	357.0
Scheduled depreciation	17.6		11.7	9.6	39.0
Disposals	–22.5		–3.3	–11.1	–36.9
Reclassified	–		–	–	
31 December 2015	258.7		51.7	48.5	359.0
Net book values					
1 January 2015	378.3	3.6	14.3	21.2	417.4
31 December 2015	360.6	2.7	13.7	19.7	396.7

1 Insured value: CHF 591.9 million.
2 Insured value: CHF 60.9 million.

Tangible assets from previous year in CHF millions

	Land and buildings[1]	Fixed assets under con-struction	Software	Sundry tangible assets[2]	Total
Historical cost					
1 January 2014	642.0	–	48.8	65.5	756.4
Additions	–	3.6	10.7	7.6	21.9
Disposals	–	–	–1.9	–2.0	–3.8
Reclassified	–	–	–	–	
31 December 2014	642.0	3.6	57.6	71.2	774.4
Cumulative value adjustments					
1 January 2014	242.2		35.9	45.2	323.3
Scheduled depreciation	21.5		9.3	6.8	37.6
Disposals	–		–1.9	–1.9	–3.8
Reclassified	–		–	–	
31 December 2014	263.7		43.3	50.0	357.0
Net book values					
1 January 2014	399.9	–	12.9	20.3	433.1
31 December 2014	378.3	3.6	14.3	21.2	417.4

1 Insured value: CHF 488.6 million.
2 Insured value: CHF 60.7 million.

Item 08

PARTICIPATIONS

In CHF millions

	Orell Füssli[1]	BIS[2]	Other	Total
Equity interest	33%	3%		
Book value as at 1 January 2014	43.5	90.2	0.7	134.4
Investments	–	–	–	–
Divestments[3]	–	–	–0.1	–0.1
Valuation changes	–0.9	–	–	–0.9
Book value as at 31 December 2014	42.6	90.2	0.6	133.5
Book value as at 1 January 2015	42.6	90.2	0.6	133.5
Investments	–	–	0.0	–
Divestments	–	–	–0.6	–0.6
Valuation changes	2.5	–	–	2.5
Book value as at 31 December 2015	45.2	90.2	0.0	135.5

1 Orell Füssli Holding Ltd, based in Zurich, whose subsidiary Orell Füssli Security Printing Ltd, also based in Zurich, produces Switzerland's banknotes.
2 Interest in the BIS, based in Basel, is held for reasons of monetary policy collaboration.
3 Interest in LiPro (LP) AG, based in Berne, with a share capital of CHF 0.1 million.

Item 09

OTHER ASSETS

In CHF millions

	31.12.2015	31.12.2014	Change
Coins[1]	221.0	204.5	+16.5
Foreign banknotes	1.2	1.1	+0.1
Other accounts receivable	47.2	15.6	+31.6
Prepayments and accrued income	111.3	3.2	+108.1
Positive replacement values[2]	80.2	91.7	–11.5
Total	**460.8**	**316.2**	**+144.6**

1 Coins acquired from Swissmint destined for circulation.
2 Unrealised gains on financial instruments and on outstanding spot transactions (cf. item no. 27, p. 188).

BANKNOTES IN CIRCULATION

Item 10

Breakdown by issue in CHF millions

	31.12.2015	31.12.2014	Change
8th issue	71 741.1	66 427.9	+5 313.2
6th issue[1]	1 140.9	1 167.9	–27.0
Total	**72 881.9**	**67 595.8**	**+5 286.1**

1 Exchangeable at the SNB until 30 April 2020. The 7th banknote series, which was created as a reserve series, was never put into circulation.

LIABILITIES TOWARDS THE CONFEDERATION

Item 11

In CHF millions

	31.12.2015	31.12.2014	Change
Sight liabilities	9 930.9	8 046.4	+1 884.5
Term liabilities	1 000.0	1 000.0	–
Total	**10 930.9**	**9 046.4**	**+1 884.5**

OTHER SIGHT LIABILITIES

Item 12

In CHF millions

	31.12.2015	31.12.2014	Change
Sight deposits of non-banks[1]	29 838.4	32 730.3	–2 891.9
Deposit accounts[2]	327.1	396.5	–69.4
Cheque liabilities[3]	0.0	0.0	0.0
Total	**30 165.5**	**33 126.8**	**–2 961.3**

1 Clearing offices, insurance corporations, etc.
2 These mainly comprise accounts of active and retired employees, plus liabilities towards the SNB pension fund. Current account liabilities towards the latter amounted to CHF 37.4 million as at 31 December 2015 (2014: CHF 110.2 million).
3 Bank cheques drawn on the SNB but not yet cashed.

Item 13

FOREIGN CURRENCY LIABILITIES

In CHF millions

	31.12.2015	31.12.2014	Change
Sight liabilities	0.4	2.3	–1.9
Liabilities from repo transactions[1]	32 521.0	14 750.8	+17 770.2
Total	**32 521.4**	**14 753.1**	**+17 768.3**

1 Relating to the management of foreign currency investments.

Item 14

OTHER LIABILITIES

In CHF millions

	31.12.2015	31.12.2014	Change
Other accounts payable	10.5	10.8	–0.3
Accrued liabilities and deferred income	13.2	11.7	+1.5
Negative replacement values[1]	90.2	132.2	–42.0
Total	**113.9**	**154.8**	**–40.9**

1 Unrealised losses on financial instruments and on outstanding spot transactions (cf. item no. 27, p. 188).

SHARE CAPITAL

Item 15

Shares[1]

	2015	2014	2013
Share capital in CHF	25 000 000	25 000 000	25 000 000
Nominal value in CHF	250	250	250
Number of shares	100 000	100 000	100 000
Ticker symbol/ISIN[2]		SNBN/CH0001319265	
Closing price on 31 December in CHF	1 099	1 060	1 045
Market capitalisation in CHF	109 900 000	106 000 000	104 500 000
Annual high in CHF	1 400	1 150	1 200
Annual low in CHF	980	991	1 004
Average daily trading volume in number of shares	58	44	30

1 Swiss GAAP FER 31 requires the presentation of earnings per share. This has no informative value in view of the special statutory provisions for the SNB. Shareholders' rights are determined by the NBA and their dividends, in particular, may not exceed 6% of share capital (with a nominal value of CHF 250 per share, a maximum of CHF 15); the Confederation is entitled to one-third and the cantons to two-thirds of the remaining distributable profit. Therefore, no presentation of earnings per share is made.
2 Listed in the Swiss Reporting Standard on SIX Swiss Exchange.

Breakdown of share ownership as at 31 December 2015

	Cantons	Cantonal banks	Other public law corporations/ institutions[1]	Total public sector shareholders	Private shareholders	Total
Registered shareholders	**26**	**22**	**24**	**72**	**2 247**	**2 319**
Voting shares	**38 981**	**13 058**	**329**	**52 368**	**18 589**	**70 957**
In percent	54.94%	18.40%	0.46%	73.80%	26.20%	100.00%
Non-voting shares					**29 043**	**29 043**
Of which shares pending registration of transfer[2]					14 223	14 223
Of which registered shares held in trust[3]					4 001	4 001
Of which shares with statutory limitation of voting rights[4]					10 819	10 819
Total shares	**38 981**	**13 058**	**329**	**52 368**	**47 632**[5]	**100 000**

1 Other public law corporations include 21 municipalities.
2 Shares pending registration of transfer are registered shares not entered in the share register.
3 Registered shares held in trust are shares held on behalf of the beneficiary by a bank or asset manager, where the bank or asset manager is listed in the share register without voting rights.
4 Voting rights are limited to a maximum of 100 shares. This limitation shall not apply to Swiss public law corporations and institutions or to cantonal banks pursuant to art. 3a of the Federal Act of 8 November 1934 on Banks and Savings Banks (in accordance with art. 26 para. 2 NBA). In 2015, 28 shareholders, each with more than 100 shares, were affected by the statutory limitation of voting rights.
5 Of which 11,956 shares are in foreign ownership (accounting for 1.44% of voting rights).

Principal shareholders: Public law sector

		31.12.2015		31.12.2014
	Number of shares	Participation	Number of shares	Participation
Canton of Berne	6 630	6.63%	6 630	6.63%
Canton of Zurich	5 200	5.20%	5 200	5.20%
Canton of Vaud	3 401	3.40%	3 401	3.40%
Canton of St Gallen	3 002	3.00%	3 002	3.00%

Principal shareholders: Private individuals[1]

		31.12.2015		31.12.2014
	Number of shares	Participation	Number of shares	Participation
Theo Siegert, Düsseldorf	6 595	6.60%	6 490	6.49%

1 Subject to legal restrictions as a shareholder outside the public law sector (art. 26 NBA), i.e. voting rights are limited to 100 shares.

NET RESULT FROM FOREIGN CURRENCY POSITIONS

Item 16

Breakdown by origin in CHF millions

	2015	2014	Change
Foreign currency investments	–19 882.0	34 384.5	–54 266.5
Reserve position in the IMF	–89.4	105.6	–195.0
International payment instruments	37.2	–13.4	+50.6
Monetary assistance loans	–8.8	11.1	–19.9
Total	**–19 943.0**	**34 487.7**	**–54 430.7**

Breakdown by type in CHF millions

	2015	2014	Change
Interest income	7 817.9	7 736.0	+81.9
Price gain/loss on interest-bearing paper and instruments	–5 108.8	8 733.1	–13 841.9
Interest expenses	–9.3	–20.8	+11.5
Dividend income	2 176.5	1 795.4	+381.1
Price gain/loss on equity securities and instruments	1 621.0	4 447.0	–2 826.0
Exchange rate gain/loss	–26 419.9	11 811.3	–38 231.2
Asset management, safe custody and other fees	–20.3	–14.4	–5.9
Total	**–19 943.0**	**34 487.7**	**–54 430.7**

Breakdown of overall net result by currency in CHF millions

	2015	2014	Change
EUR	–18 854.6	6 193.0	–25 047.6
USD	3 877.1	20 158.5	–16 281.4
JPY	1 756.6	820.8	+935.8
GBP	–1 071.5	2 941.0	–4 012.5
CAD	–3 287.4	1 607.1	–4 894.5
AUD	–821.0	794.2	–1 615.2
KRW	–208.9	873.8	–1 082.7
DKK	–452.2	371.7	–823.9
SEK	–146.5	91.3	–237.8
CNY	104.7	–	+104.7
SGD	–183.4	237.9	–421.3
SDR	–61.0	103.2	–164.2
Other	–594.9	295.3	–890.2
Total	**–19 943.0**	**34 487.7**	**–54 430.7**

Breakdown of exchange rate gain/loss by currency in CHF millions

	2015	2014	Change
EUR	–22 336.4	–4 079.7	–18 256.7
USD	3 083.0	14 278.8	–11 195.8
JPY	203.1	–884.4	+1 087.5
GBP	–1 236.8	1 420.1	–2 656.9
CAD	–3 277.0	457.6	–3 734.6
AUD	–937.0	128.6	–1 065.6
KRW	–491.2	452.9	–944.1
DKK	–716.9	–118.1	–598.8
SEK	–224.8	–247.7	+22.9
CNY	6.7	–	+6.7
SGD	–171.2	172.6	–343.8
SDR	–62.0	101.1	–163.1
Other	–259.2	129.4	–388.6
Total	**–26 419.9**	**11 811.3**	**–38 231.2**

NET RESULT FROM SWISS FRANC POSITIONS

Item 17

Breakdown by origin in CHF millions

	2015	2014	Change
Negative interest on sight deposit account balances	1 163.9	–	+1 163.9
Swiss franc securities	83.4	285.5	–202.1
Liquidity-providing Swiss franc repo transactions	–	–	–
Liquidity-absorbing Swiss franc repo transactions	–	–	–
Liabilities towards the Confederation	–	–	–
SNB debt certificates	–	–	–
Other Swiss franc positions	–2.3	–8.9	+6.6
Total	**1 245.0**	**276.6**	**+968.4**

Breakdown by type in CHF millions

	2015	2014	Change
Negative interest on sight deposit account balances	1 163.9	–	+1 163.9
Interest income	66.5	74.8	–8.3
Price gain/loss on interest-bearing paper and instruments	24.4	217.8	–193.4
Interest expenses	–2.3	–8.9	+6.6
Trading, safe custody and other fees	–7.6	–7.2	–0.4
Total	**1 245.0**	**276.6**	**+968.4**

Item 18

NET RESULT, OTHER

In CHF millions

	2015	2014	Change
Commission income	3.7	5.6	−1.9
Commission expenses	−3.9	−5.4	+1.5
Income from participations	7.7	5.7	+2.0
Income from real estate	4.1	4.3	−0.2
Other income	−0.1	1.9	−2.0
Total	**11.6**	**12.1**	**−0.5**

Item 19

BANKNOTE EXPENSES

In line with practice at other central banks, from the 2014 financial year, acquisition and development expenses for banknotes are no longer recorded in the balance sheet. All expenses arising in connection with the distribution of banknotes are recorded directly in the income statement under banknote expenses. This change in accounting principles for banknote stocks resulted in a one-off depreciation amounting to CHF 156.7 million in the 2014 financial year.

Item 20

PERSONNEL EXPENSES[1]

Breakdown by type in CHF millions

	2015	2014	Change
Wages, salaries and allowances	122.2	116.7	+5.5
Social security expenses	27.9	26.6	+1.3
Other personnel expenses[2]	7.5	6.9	+0.6
Total	**157.7**	**150.2**	**+7.5**

1 In terms of full-time equivalents, the number of employees averaged 782 for 2015 (2014: 764).
2 Various social benefits; expenses for staff development, training and recruitment; events, etc.

Remuneration for members of the Bank Council[1] **(excluding employer social security contributions)**
in CHF thousands

	2015	2014	Change
Jean Studer, President[2, 3, 4]	153.4	159.0	−5.6
Olivier Steimer, Vice President[3, 4]	75.6	78.4	−2.8
Gerold Bührer (until 25 April 2014)[3, 5]	–	17.8	−17.8
Monika Bütler[3]	50.6	47.8	+2.8
Alfredo Gysi[6]	50.6	50.6	–
Barbara Janom Steiner (as of 1 May 2015)	30.0	–	+30.0
Heinz Karrer (as of 25 April 2014)[5]	56.2	35.6	+20.6
Daniel Lampart[6]	50.6	50.6	–
Christoph Lengwiler[5]	59.0	56.2	+2.8
Shelby Robert du Pasquier[6]	50.6	50.6	–
Laura Sadis (until 31 March 2015)	11.3	45.0	−33.7
Ernst Stocker[5]	59.0	56.2	+2.8
Cédric Pierre Tille[4]	45.0	59.0	−14.0
Total	**691.9**	**706.8**	**−14.9**

1 In accordance with SNB regulations; participation in committee meetings not held on the same day as Bank Council meetings is compensated at a rate of CHF 2,800 per day. Special assignments are compensated at a rate of CHF 2,800 per day or CHF 1,400 per half-day.
2 Excluding employer contributions for pension benefits in the amount of CHF 42,839 (2014: 40,010).
3 Member of Compensation Committee.
4 Member of Nomination Committee.
5 Member of Audit Committee.
6 Member of Risk Committee.

Remuneration for members of the Regional Economic Councils in CHF thousands

	2015	2014	Change
Chairpersons[1]	60.0	60.0	–
Members[2, 3]	118.0	113.0	+5.0

1 Remuneration per chairperson (8 persons in total): CHF 7,500 per year.
2 Remuneration per member (20 persons in total): CHF 6,000 per year.
3 Change compared to previous year due to job vacancies being filled.

The list of Regional Economic Councils can be found on p. 203.

Remuneration for members of executive management[1] (excluding employer social security contributions) in CHF thousands

	Salaries	Miscellaneous[2]	**2015 Total remuneration**	2014 Total remuneration	Change
Three members of the Governing Board	2 629.4	166.1	**2 795.5**	2 682.6	+ 112.9
Thomas J. Jordan, Chairman[3]	876.5	30.0	**906.5**	895.0	+ 11.5
Fritz Zurbrügg, Vice Chairman (as of 1 July 2015)	876.5	30.0	**906.5**	893.8	+ 12.7
Andréa M. Maechler (as of 1 July 2015)	438.2	18.0	**456.2**	–	+ 456.2
Jean-Pierre Danthine, Vice Chairman (until 30 June 2015)	438.2	88.1	**526.3**	893.8	– 367.5
Three alternate members of the Governing Board[4]	1 361.4	103.8	**1 465.2**	1 443,5[5]	+ 21.7
Total	**3 990.8**	**269.9**	**4 260.7**	**4 126.1**	**+ 134.6**

Remuneration for members of executive management[1] (including employer social security contributions) in CHF thousands

	Total remuneration	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	2015 Total	2014 Total	Change
Three members of the Governing Board	2 795.5	751.0	3 546.5	3 321.1	+ 225.4
Thomas J. Jordan, Chairman[3]	906.5	246.6	1 153.1	1 135.0	+ 18.1
Fritz Zurbrügg, Vice Chairman (as of 1 July 2015)	906.5	287.4	1 193.9	1 133.8	+ 60.1
Andréa M. Maechler (as of 1 July 2015)	456.2	123.3	579.5	–	+ 579.5
Jean-Pierre Danthine, Vice Chairman (until 30 June 2015)	526.3	93.7	620.0	1 052.3	– 432.3
Three alternate members of the Governing Board[4]	1 465.2	409.0	1 874.2	1 816,8[5]	+ 57.4
Total	**4 260.7**	**1 160.0**	**5 420.7**	**5 137.9**	**+ 282.8**

1 All remuneration is specified in SNB regulations (cf. also 'Corporate governance', p. 133).
2 Representation expenses, General Abonnement travel card, jubilee benefits and further compensation in accordance with regulations.
3 Excluding remuneration in the amount of CHF 66,335 for serving as member of the Board of Directors at the BIS.
4 Excluding remuneration in the amount of CHF 36,300 for an alternate member of the Governing Board for serving as member of the Board of Directors of Orell Füssli Holding Ltd.
5 Allocation for 2014 adjusted.

Like all employees, members of executive management are entitled to reduced-rate mortgage loans granted by the SNB pension fund as well as to preferential interest rates on the credit balances of their SNB staff accounts. No additional remuneration as defined by art. 663b^{bis} para. 1 CO was paid.

Of the members of executive management, Dewet Moser, Alternate Member of the Governing Board, held one SNB share as at 31 December 2015.
In accordance with the 'Code of Conduct for members of the Bank Council', members of the Bank Council may not hold shares in the SNB.

EMPLOYEE BENEFIT OBLIGATIONS[1, 2]

Item 21

Share of overfunding of pension plans[3] in CHF millions

	31.12.2015	31.12.2014	Change
Overfunding in accordance with Swiss GAAP FER 26[3]	68.7	96.7	–28.0
SNB's share of overfunding	–	–	–

1 The pension fund does not have any employer contribution reserves.
2 The pension fund by-laws contain a restructuring clause. The clause will come into effect if it appears likely that the pension fund coverage ratio will drop below 100%. In such a case, a restructuring concept must be drawn up to ensure that the shortfall in coverage can be remedied within a reasonable timeframe with the support of the SNB. The restructuring clause ensures a long-term solution to the problem of a shortfall.
3 Overfunding is used in favour of the insured. The stated overfunding is unaudited at the time of reporting.

Employee benefit expenses in CHF millions

	2015	2014	Change
Employer contributions	19.1	18.1	+1.0
Change in share of overfunding	–	–	–
Employee benefit expenses as part of personnel expenses[4]	19.1	16.2	+2.9

4 On 1 January 2014, the SNB pension fund changed from a defined benefit to a defined contribution system. While the major portion of the associated costs were covered from the pension fund reserves, a one-off provision of CHF 30 million was created for the remaining sum and allocated to the 2013 financial year. The provision remaining after the costs that were borne by the SNB had been deducted, and which amounted to CHF 1.9 million, was released in 2014.

Item 22

GENERAL OVERHEADS

In CHF millions

	2015	2014	Change
Premises	30.4	26.1	+4.3
Maintenance of mobile tangible assets and software	17.5	17.0	+0.5
Consulting and other third-party support[1]	31.5	32.1	–0.6
Administrative expenses	20.7	19.2	+1.5
Contributions[2]	6.8	7.2	–0.4
Other general overheads	10.7	8.0	+2.7
Total	**117.6**	**109.6**	**+8.0**

1 Auditing fees for the 2015 financial year totalled CHF 0.3 million (2014: CHF 0.3 million). In addition, the Audit Board provided consulting services amounting to roughly CHF 30,000 (2014: none).
2 Mainly contributions towards the Study Center Gerzensee (SNB foundation).

4.3 NOTES REGARDING OFF-BALANCE-SHEET BUSINESS

Item 23

LIQUIDITY-SHORTAGE FINANCING FACILITY

The liquidity-shortage financing facility is a credit line for eligible counterparties to bridge unexpected short-term liquidity bottlenecks. Liquidity can be drawn by way of special-rate repo transactions. The amounts stated are the maximum amounts that can be drawn.

In CHF millions

	31.12.2015	31.12.2014	Change
Lending commitment	44 915.5	38 470.5	+6 445.0
Amount drawn	–	–	–
Amount not drawn	44 915.5	38 470.5	+6 445.0

Item 24

COMMITMENTS TO THE IMF

Commitments to the IMF include irrevocable lending commitments and other commitments which the SNB has granted to the IMF in the context of international cooperation. The amounts stated are the maximum liabilities arising from these commitments.

Overview: Undrawn lending commitments and exchange arrangement for international payment instruments in CHF millions

	31.12.2015	31.12.2014	Change
New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB)[1]	13 621.1	13 798.3	–177.2
Lending commitment to PRGT[2]	672.3	718.9	–46.6
Total undrawn lending commitments	**14 293.4**	**14 517.1**	**–223.7**
Exchange arrangement for international payment instruments (voluntary trading arrangement)[3]	2 114.2	2 677.0	–562.8

1 For further details, cf. item no. 03, p. 168.
2 For further details, cf. item no. 05, p. 170.
3 For further details, cf. item no. 04, p. 169.

OTHER LIABILITIES NOT CARRIED ON BALANCE SHEET

Item 25

In CHF millions

	31.12.2015	31.12.2014	Change
Additional funding for the BIS[1]	89.3	92.9	–3.6
Liabilities from long-term rental, maintenance and leasing contracts[2]	79.4	87.9	–8.5
Contingent liabilities from procurement of banknotes	56.3	70.4	–14.1
Total	**225.0**	**251.2**	**–26.2**

1 BIS shares are 25% paid up. The additional funding obligation is stated in SDRs.
2 Including leasehold interest on Metropol building in Zurich.

ASSETS PLEDGED OR ASSIGNED AS COLLATERAL FOR SNB LIABILITIES

Item 26

In CHF millions

	31.12.2015		31.12.2014	
	Book value	Liabilities or amount drawn	Book value	Liabilities or amount drawn
Foreign currency investments in USD	12 125.0	12 024.2	5 366.6	5 264.5
Foreign currency investments in EUR	17 802.9	17 150.1	6 508.6	6 128.0
Foreign currency investments in GBP	3 339.4	3 346.6	2 634.6	2 588.1
Foreign currency investments in CAD	–	–	770.1	770.1
Total[1]	**33 267.2**	**32 521.0**	**15 279.8**	**14 750.8**

1 Mainly collateral lodged in connection with repo transactions and futures.

Item 27

OUTSTANDING FINANCIAL INSTRUMENTS[1]

In CHF millions

	31.12.2015			31.12.2014		
	Contract value	Replacement value		Contract value	Replacement value	
		Positive	Negative		Positive	Negative
Interest rate instruments	**17 860.0**	**23.5**	**19.7**	**11 415.3**	**43.6**	**69.0**
Repo transactions in CHF[2]	1 000.0	–	–	1 100.0	–	–
Forward contracts[1]	2 566.6	0.6	0.6	1 136.7	0.5	0.3
Interest rate swaps	5 426.9	22.8	19.0	2 013.9	43.0	67.2
Futures	8 866.5	0.1	0.1	7 164.6	0.0	1.5
Foreign exchange	**5 944.8**	**53.7**	**61.6**	**4 464.8**	**47.3**	**51.8**
Forward contracts[1]	5 164.1	53.7	60.6	3 897.9	47.3	50.3
Options	780.7	–	1.1	567.0	0.0	1.4
Equities/indices	**1 736.1**	**1.6**	**0.3**	**1 601.8**	**0.8**	**0.1**
Forward contracts[1]	1.9	0.0	–	2.2	0.1	0.1
Futures	1 734.2	1.6	0.3	1 599.5	0.7	0.0
Credit instruments	**1 756.7**	**1.4**	**8.6**	**676.5**	**–**	**11.3**
Credit default swaps	1 756.7	1.4	8.6	676.5	–	11.3
Total	**27 297.5**	**80.2**	**90.2**	**18 158.4**	**91.7**	**132.2**

1 Including spot transactions with the value date in the new year.
2 Only transactions with the value date in the new year.

FIDUCIARY INVESTMENTS

Item 28

Fiduciary business covers investments which the SNB makes in its own name but on the basis of a written contract exclusively for the account of and at the risk of the counterparty (mainly the Confederation). The transactions are stated at nominal value inclusive of accrued interest.

In CHF millions

	31.12.2015	31.12.2014	Change
Fiduciary investments for the Confederation	648.9	720.7	–71.8
Other fiduciary investments	6.1	6.6	–0.5
Total	**655.0**	**727.3**	**–72.3**

5
Report of the Audit Board for the General Meeting of Shareholders

As statutory auditor, we have audited the financial statements of the Swiss National Bank, which comprise the balance sheet, income statement, statement of changes in equity and notes (pp. 153–189 of the financial report) for the year ended 31 December 2015.

Bank Council's responsibility

The Bank Council is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the accounting principles detailed in the notes. Unless otherwise stated, the accounting principles are based on the Swiss GAAP FER standards. Departures from Swiss GAAP FER occur only if the special nature of the SNB needs to be taken into account. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank Council is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and give a true and fair view of the financial position and the results of operations in accordance with the accounting and valuation principles detailed in the notes.

Other matter

The financial statements of the Swiss National Bank for the year ended 31 December 2014 were audited by another auditor, whose unmodified opinion was issued on 27 February 2015.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 47 NBA in conjunction with art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Bank Council.

We further confirm that the proposed appropriation of the net profit complies with the provisions of the National Bank Act and recommend that the financial statements submitted to you be approved.

KPMG LTD

PHILIPP RICKERT	PIETRO DI FLURI
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, 4 March 2016

Proposals of the Bank Councils

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 4 March 2016, the Bank Council accepted the financial report for 2015 for submission to the Federal Council and to the General Meeting of Shareholders.

The Audit Board signed its report on 4 March 2016.
On 23 March 2016, the Federal Council approved the financial report.

The Bank Council presents the following proposals to the General Meeting of Shareholders:

1. that the financial report for 2015 be approved;
2. that a dividend totalling CHF 1.5 million be paid to shareholders as part of the profit appropriation;
3. that the Bank Council be granted discharge;
4. that Monika Bütler, Heinz Karrer, Daniel Lampart, Olivier Steimer and Cédric Tille, all current members, be elected to the Bank Council for the 2016–2020 term of office;
5. that KPMG Ltd be appointed as the Audit Board for the 2016–2017 term of office.

APPROPRIATION OF PROFIT

In CHF millions

	2015
Annual result (art. 29 NBA)	**–23 250.6**
– Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	–1 362.2
= Distributable annual result (art. 30 para. 2 NBA)	**–24 612.8**
+ Profit carried forward (distribution reserve before appropriation of profit)	27 518.8
= Net profit (art. 31 NBA)	**2 906.0**
– Payment of a dividend of 6% (art. 31 para. 1 NBA)	–1.5
– Profit distribution to Confederation and cantons (art. 31 para. 2 NBA)[1]	–1 000.0
= Balance carried forward to following year's financial statements (distribution reserve after appropriation of profit)	**1 904.5**

1 Profit distribution agreement of 21 November 2011 between the Federal Department of Finance and the Swiss National Bank.

Selected information

1 Chronicle of monetary events in 2015

January

On 15 January 2015, the SNB discontinues the minimum exchange rate of CHF 1.20 per euro. At the same time, it lowers the target range for the three-month Libor by 0.5 percentage points to between –1.25% and –0.25%, and adjusts the interest rate on sight deposits held by banks and other financial market participants at the SNB to –0.75% as of 22 January 2015. The aim of this marked interest rate reduction is to cushion the effects of the discontinuation of the minimum exchange rate and reduce the attractiveness of Swiss franc investments. The SNB also announces that it will continue to take account of the exchange rate situation in formulating its monetary policy in future, and will intervene in the foreign exchange market as necessary (pp. 37–47).

On 21 January, the SNB and the People's Bank of China sign a memorandum of understanding on the establishment of renminbi clearing arrangements in Switzerland (p. 112).

March

On 6 March, the SNB reports a profit of CHF 38.3 billion for the 2014 financial year. The distributable profit allows payment of a shareholder dividend as well as the ordinary profit distribution of CHF 1 billion to the Confederation and the cantons. After the profit appropriation, the distribution reserve stands at CHF 28.5 billion, which is above the CHF 10 billion threshold. In accordance with the profit distribution agreement concluded with the Federal Department of Finance (FDF), the profit distribution for 2014 can therefore be increased. On 30 January, the SNB and the FDF already agreed to a supplementary distribution of CHF 1 billion, so that the total distribution to the Confederation and the cantons for the 2014 financial year amounts to CHF 2 billion. The remaining profit is allocated to the distribution reserve (cf. *Annual Report 2014*, pp. 140–145).

At its quarterly assessment of 19 March, the SNB leaves the target range for the three-month Libor unchanged at between –1.25% and –0.25%. The interest rate on sight deposits with the SNB remains unchanged at –0.75%. In formulating its monetary policy, the SNB continues to take account of the exchange rate situation and its impact on inflation and economic developments. It therefore reaffirms its willingness to intervene in the foreign exchange market as necessary in order to influence monetary conditions (pp. 37–47).

On 22 April, the SNB announces that it is considerably reducing the group of sight deposit account holders that are exempt from negative interest. The negative interest rate will in future also apply to the sight deposit accounts held at the SNB by enterprises associated with the Confederation, including the PUBLICA pension fund. The account of the SNB pension fund will also be subject to negative interest. In addition, the sight deposit accounts of the cantons of Geneva and Zurich, as well as that of the City of Zurich, are wound up. In future, the only sight deposit accounts to be exempt from negative interest will be those of the central Federal Administration and the compensation funds for old age and survivors' insurance (AHV/AVS), disability insurance (IV/AI) and the fund for loss of earned income (EO/APG) (p. 57). **April**

At its quarterly assessment of 18 June, the SNB leaves the target range for the three-month Libor unchanged at between –1.25% and –0.25%. The interest rate on sight deposits at the SNB remains at –0.75%. In formulating its monetary policy, the SNB takes account of the exchange rate situation and its impact on inflation and economic developments. It therefore reaffirms its willingness to intervene in the foreign exchange market as necessary in order to influence monetary conditions (pp. 37–47). **June**

On 14 August, the SNB announces that it will begin issuing new Swiss banknotes in April 2016 and that the first denomination to be released will be the 50-franc note. The issuing of the entire series is scheduled to be completed by 2019 (p. 65). **August**

On 20 August, the SNB launches the consultation phase for the revision of the National Bank Ordinance (NBO) and invites all interested parties to comment on the draft by 2 October at the latest. The revision primarily concerns the implementing provisions relating to the oversight of systemically important financial market infrastructures. It aligns these implementing provisions with new and/or modified legislation under the new Financial Market Infrastructure Act (FMIA) and the Financial Market Infrastructure Ordinance (FMIO) as well as the resulting changes in the National Bank Act, which all come into force on 1 January 2016 (pp. 94–96).

On 1 September, the SNB announces that it issued a decree on 29 June designating PostFinance Ltd a systemically important financial group in accordance with the Banking Act (p. 91). **September**

At its quarterly assessment of 17 September, the SNB leaves the target range for the three-month Libor unchanged at between –1.25% and –0.25%. The interest rate on sight deposits at the SNB remains at –0.75%. The SNB reaffirms its willingness to intervene in the foreign exchange market as necessary in order to take account of the impact of the exchange rate situation on inflation and economic developments (pp. 37–47).

October

On 21 October, the SNB welcomes the Federal Council's decision to adjust the 'too big to fail' regulations. The measures taken represent a crucial step in the overall process of solving the 'too big to fail' issue in Switzerland. The SNB, which was represented in the relevant Federal Department of Finance working group, supports both the measures and their implementation within the period foreseen (pp. 92–93).

November

On 10 November, the SNB reports that the People's Bank of China has authorised direct trading between renminbi and Swiss francs on the China Foreign Exchange Trade System (CFETS) with effect from 9 November (p. 112).

On 26 November, the SNB announces that it will put the revised NBO into force on 1 January 2016. This revision aligns the implementing provisions relating to the oversight of systemically important financial market infrastructures with new and/or modified legislation (p. 94).

On 30 November, the SNB announces that the People's Bank of China has authorised the Swiss branch of the China Construction Bank to be the renminbi clearing bank in Switzerland (p. 112).

December

At its quarterly assessment of 10 December, the SNB leaves the target range for the three-month Libor unchanged at between –1.25% and –0.25%. The interest rate on sight deposits remains at –0.75%. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilise price developments and support economic activity (pp. 37–47).

2
Bank supervisory and management bodies, Regional Economic Councils

as at 1 January 2016

BANK COUNCIL

(2012–2016 term of office)

Jean Studer	Attorney-at-law, President of the Bank Council, Head of the Nomination Committee, Member of the Compensation Committee, 2007/2015[1, 2]
* Olivier Steimer	Chairman of the Board of Directors at Banque Cantonale Vaudoise, Vice President of the Bank Council, Head of the Compensation Committee, Member of the Nomination Committee, 2009/2012[1]
* Monika Bütler	Professor of Economics at the University of St. Gallen, Member of the Compensation Committee, 2010/2012[1]
Alfredo Gysi	Chairman of the Board of Directors at BSI Ltd, Head of the Risk Committee, 2011/2012[1]
Barbara Janom Steiner	Member of the Cantonal Government and Head of the Department of Finance and Communal Affairs of the Canton of Graubünden, 2015/2015[1]
* Heinz Karrer	President of economiesuisse (Swiss Business Federation), Member of the Audit Committee, 2014[1]
* Daniel Lampart	Chief Economist and Executive Secretary of the Swiss Federation of Trade Unions, Member of the Risk Committee, 2007/2012[1]
Christoph Lengwiler	Professor and Head of the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts, Head of the Audit Committee, 2012/2015[1]
Shelby R. du Pasquier	Attorney-at-law and Partner at Lenz & Staehelin, Member of the Risk Committee, 2012/2015[1]
Ernst Stocker	Member of the Cantonal Government and Head of the Department of Economic Affairs of the Canton of Zurich, Member of the Audit Committee, 2010/2015[1]
* Cédric Pierre Tille	Professor at the Graduate Institute of International and Development Studies, Geneva, Member of the Nomination Committee, 2011/2012[1]

In line with art. 40 para. 1 NBA, all members of the Bank Council hold Swiss citizenship.
* Elected by the General Meeting of Shareholders.
1 Initial and current election to the Bank Council.
2 Elected until completion of maximum permitted term of office for Bank Council members.

RELEVANT AFFILIATIONS OF BANK COUNCIL MEMBERS

Further relevant affiliations of the Bank Council members are listed on the SNB website at www.snb.ch, *The SNB*, *Supervisory and executive bodies*, *Bank Council*.

AUDIT BOARD

(2015–2016 term of office)

KPMG Ltd

GOVERNING BOARD

(2015–2021 term of office)

Thomas J. Jordan	Chairman of the Governing Board, Head of Department I, Zurich
Fritz Zurbrügg	Vice Chairman of the Governing Board, Head of Department II, Berne
Andréa M. Maechler	Member of the Governing Board, Head of Department III, Zurich

In line with art. 44 para. 1 NBA, all members of the Governing Board hold Swiss citizenship and are resident in Switzerland.

ENLARGED GOVERNING BOARD

(2015–2021 term of office)

Thomas J. Jordan	Chairman of the Governing Board, Head of Department I, Zurich
Fritz Zurbrügg	Vice Chairman of the Governing Board, Head of Department II, Berne
Andréa M. Maechler	Member of the Governing Board, Head of Department III, Zurich
Thomas Moser	Alternate Member of the Governing Board, Department I, Zurich
Thomas Wiedmer	Alternate Member of the Governing Board, Department II, Berne
Dewet Moser	Alternate Member of the Governing Board, Department III, Zurich

In line with art. 44 paras. 1 and 3 NBA, all members and alternate members of the Governing Board hold Swiss citizenship and are resident in Switzerland.

RELEVANT AFFILIATIONS OF THE ENLARGED GOVERNING BOARD

Further relevant affiliations of the Enlarged Governing Board are listed on the SNB website at www.snb.ch, *The SNB*, *Supervisory and executive bodies*, *Enlarged Governing Board*.

BANK MANAGEMENT

For a comprehensive list, cf. www.snb.ch, *The SNB*, *Supervisory and executive bodies*, *Bank management.*

REGIONAL ECONOMIC COUNCILS

(2012–2016 term of office)

Central Switzerland	Hans Marfurt, CEO of TRUMPF Maschinen AG, Chairperson
	Thomas Herbert, CEO of The Globe Stores Ltd
	Norbert Patt, CEO of Bergbahnen Engelberg-Trübsee-Titlis AG
	Sandro Alberto Vanoli, CEO of C. Vanoli Generalunternehmung AG
Eastern Switzerland	Andreas Züllig, Manager of the Hotel Schweizerhof, Lenzerheide, Chairperson
	Andreas Schmidheini, Joint owner and CEO of Varioprint Ltd
	Christoph Tobler, Member of the Board and CEO of Sefar Holding Inc.
	Franziska A. Tschudi Sauber, Delegate of the Board of Directors and CEO of Wicor Holding AG
Geneva	Nicolas Brunschwig, Joint owner of Brunschwig & Cie SA, Chairperson
	Carole Hubscher Clements, President of the Board of Caran d'Ache SA
	Jean-Marc Thévenaz, Managing Director of easyJet Switzerland SA
Italian-speaking Switzerland	Alessandra Alberti, Managing Director of Chocolat Stella SA, Chairperson
	Roberto Ballina, Member of the Board and CEO of Tensol Rail SA
	Enzo Lucibello, CEO of Media Markt Grancia SA
Mittelland	Stephan Maeder, Chairman of the Board of Bernensis Hotel AG and Managing Director of the Carlton-Europe Hotel, Interlaken
	Josef Maushart, CEO and Chairman of the Board of Fraisa Holding AG
	Peter Schmid, Head of Berne Sales Region and member of the Retail Business Unit management at Coop
Northwestern Switzerland	Stefano Patrignani, Managing Director of Migros Basel, Chairperson
	Thomas Ernst, Delegate of the Board of Directors and CEO of VINCI Energies Switzerland Ltd
	Thomas Knopf, CEO of ULTRA-BRAG LTD
	Monika Walser, CEO of de Sede AG
Vaud-Valais	Paul Michellod, Director of FMV SA, Chairperson
	Hélène Béguin, Member of the Board of KPMG Holding Ltd and Head of National Market Western Switzerland at KPMG Ltd
	Aude Pugin Toker, Head of the Board and the department of finance at Apco Technologies SA
Zurich	Isabelle Welton-Lalive d'Epinay, Chief Human Resources Officer and Regional Chairman of Latin America, Member of the Group Executive Committee at Zurich Insurance Company Ltd, Chairperson
	Patrick Candrian, Joint owner of Candrian Catering AG
	Valentin Vogt, Chairman of the Board of Directors at Burckhardt Compression Holding Ltd

3
Organisational chart

as at 1 January 2016

GENERAL MEETING OF SHAREHOLDERS	**AUDIT BOARD**
BANK COUNCIL	**INTERNAL AUDIT**

GOVERNING BOARD

ENLARGED GOVERNING BOARD

BOARD OF DEPUTIES

DEPARTMENT I

Secretariat General	Secretariat Supervisory and Management Bodies
	Communications
	Documentation
	Research Coordination and Economic Education
Economic Affairs	Monetary Policy Analysis
	Inflation Forecasting
	Economic Analysis
International Monetary Cooperation	Multilateral Coordination
	International Policy Analysis
	Bilateral Cooperation
Statistics	Balance of Payments and Swiss Financial Accounts
	Banking Statistics
	Publications and Data Banks
Legal Services	
Compliance	
Human Resources and Pension Benefits	Human Resources
	Pension Fund
Premises and Technical Services	

DEPARTMENT II

Financial Stability	Banking System
	Systemically Important Banks
	Oversight
Cash	Specialist Support
	Procurement and Logistics
	Cash Circulation, East
	Cash Circulation, West
Central Accounting	
Controlling	
Risk Management	
Operational Risk and Security	

DEPARTMENT III

Money Market and Foreign Exchange	Money Market
	Foreign Exchange and Gold
Asset Management	Global Rates
	Global Corporates
Banking Operations	Payment Operations
	Back Office
	Customer and Data Management
Information Technology	Banking Applications
	Business Support Processes
	Economic Information Systems
	Infrastructure
Financial Market Analysis	
Singapore	

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Publications and other resources

Unless otherwise noted, the publications and other resources are available on the SNB website at www.snb.ch, *Publications*.

ANNUAL REPORT

The *Annual Report* is published at the beginning of April in German, French, Italian and English (print and online).

FINANCIAL STABILITY REPORT

The *Financial Stability Report* assesses the stability of Switzerland's banking sector. It is published annually in June in English, and in August in German and French (print and online).

QUARTERLY BULLETIN

The *Quarterly Bulletin* contains the monetary policy report used for the Governing Board's quarterly monetary policy assessment and the report on business cycle trends from the vantage point of the delegates for regional economic relations. It is published at the end of March, June, September and December in German, French (print and online) and English (online). The report on business cycle trends from the vantage point of the SNB delegates is also available as a separate online document in German, French, Italian and English.

IMPORTANT MONETARY POLICY DATA

The SNB publishes important monetary policy data on its website on a weekly basis, including the SNB's reference interest rates, the Swiss Average Rates, as well as information on the sight deposits with the SNB and the minimum reserves. The data is available in German, French and English.

STATISTICAL DATA

Since August 2015, the SNB has been releasing its statistical data on the data portal https://data.snb.ch. The *Monthly Statistical Bulletin* and the *Monthly Bulletin of Banking Statistics* have been discontinued. The statistical publications *Banks in Switzerland*, *Swiss Financial Accounts*, *Swiss Balance of Payments and International Investment Position* and *Direct Investment*, which include a commentary on the data, will continue to be available in an adapted form. The relevant data tables can now be found on the data portal.

BANKS IN SWITZERLAND

Banks in Switzerland is a commentated collection of statistical source material on the development and structure of the Swiss banking sector. It is compiled mainly from SNB year-end statistics. *Banks in Switzerland* is published mid-year in German, French and English (print and online).

SWISS FINANCIAL ACCOUNTS

The report titled *Swiss Financial Accounts* reflects the volume and structure of financial assets and liabilities held by the different sectors of the domestic economy, as well as those held with respect to the rest of the world, and those held by the rest of the world with respect to Switzerland. The report is published in autumn in German, French and English (print and online).

SWISS BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION, DIRECT INVESTMENT

The report *Swiss Balance of Payments and International Investment Position* is published once a year in May (print and online). The report on the balance of payments reviews the development of economic transactions between residents and non-residents. The report on Switzerland's international investment position describes developments in foreign assets, foreign liabilities and Switzerland's net investment position.
Direct Investment examines the developments in Switzerland's direct investments abroad as well as the changes in foreign direct investment in Switzerland. It is published once a year in December.
The reports are available in German, French and English (print and online).

SNB ECONOMIC STUDIES, SNB WORKING PAPERS, SNB RESEARCH UPDATE

SNB Economic Studies and *SNB Working Papers* present articles on economic issues and research results at irregular intervals. They appear in one language only, as a rule in English. The *SNB Research Update*, which is published twice a year, provides an overview of the SNB's current research and information on its academic activities. It is available online, in English.

HISTORICAL TIME SERIES

The *Historical Time Series* publications examine various monetary policy themes from a long-term perspective and provide the associated data sets. They are published at irregular intervals in German, French and English (print and online).

THE SWISS NATIONAL BANK 1907–2007

The commemorative publication marking the 100th anniversary of the Swiss National Bank deals with the SNB's history and various monetary policy topics. It is available in bookshops in Italian and English; the German and French versions are out of print. All four language versions are available on the SNB website at www.snb.ch, *The SNB*, *History*, *Publications*.

THE SWISS NATIONAL BANK IN BERNE – AN ILLUSTRATED CHRONICLE

A chronicle of the Swiss National Bank in Berne entitled *Die Schweizerische Nationalbank in Bern – eine illustrierte Chronik* was published in collaboration with the Society for Art History in Switzerland to mark the 100th anniversary of the inauguration of the SNB's head office in Berne at Bundesplatz 1. The bilingual (German and French), illustrated book is available from GSK (www.gsk.ch). It is also available on the SNB website at www.snb.ch, *The SNB*, *History*, *Publications*.

THE SWISS NATIONAL BANK IN BRIEF

The *Swiss National Bank in Brief* gives an overview of the SNB's tasks, its organisation and the legal basis of its activities. It is published in German, French, Italian and English (print and online).

ENVIRONMENTAL REPORT

The SNB's annual environmental report contains data and indicators on the use of resources and on greenhouse gas emissions. It describes the foundations upon which the SNB's environmental management is based, explains the SNB's strategy in connection with climate change and lists measures and projects aimed at improving its environmental performance. It is available in German and French (print and online).

PRESS RELEASES

All SNB press releases have been available in German, French and English at www.snb.ch since mid-1997.

SPEECHES

The members of the Governing Board regularly give speeches on monetary policy issues. These are available at www.snb.ch, *Suggested pages*, *Speeches*, and are usually published in German, French or English, with a summary in all three languages.

QUESTIONS AND ANSWERS

The online questions and answers deal with topics of importance to the SNB. They are available in German, French, Italian and English at www.snb.ch, *General public*, *Questions and answers*.

ICONOMIX

iconomix is the SNB's web-based educational programme. It offers a range of teaching resources that can be either downloaded or ordered. Although it is aimed at teachers of economics and humanities at upper secondary schools, it is open to anyone interested in finding out more about the subject. iconomix is available in full in German and French, and partially in Italian and English, at www.iconomix.ch.

GLOSSARY

The online glossary explains important terms from the world of finance and monetary policy. It is available in German, French, Italian and English at www.snb.ch.

FURTHER RESOURCES

What is money really about? is a brochure describing the activities of the Swiss National Bank in simple, easy-to-understand terms. It is an ideal teaching aid for both older primary school students and secondary school students.
The Swiss National Bank and that vital commodity: money is a brochure explaining the SNB and its tasks. It is suitable as a teaching aid for older secondary school students and for vocational training students as well as for anybody generally interested in the SNB.
An "A to Z" of the Swiss National Bank is an SNB glossary of important central banking terms.
The information in these publications as well as the publications themselves are available via the SNB website at www.snb.ch, *Publications*, *Publications about the SNB*, *The world of the National Bank*.
The National Bank and money is a short film (available on DVD) illustrating the characteristics of money.
The National Bank and its monetary policy is a short film (available on DVD) describing how the SNB conducts its monetary policy on a daily basis and explaining the principles behind that monetary policy.
All the material in this section ('Further resources') is available in German, French, Italian and English.

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Addresses

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AGENCIES

The Swiss National Bank maintains agencies operated by cantonal banks in Altdorf, Appenzell, Chur, Fribourg, Geneva, Glarus, Liestal, Lucerne, Sarnen, Schaffhausen, Schwyz, Sion, Stans and Zug.

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WEBSITE

www.snb.ch

6 Rounding conventions and abbreviations

ROUNDING CONVENTIONS

The figures in the income statement, balance sheet and tables are rounded; totals may therefore deviate from the sum of individual items.

The figures 0 and 0.0 are rounded values representing less than half of the unit used, yet more than zero (rounded zero).

A dash (–) in place of a number stands for zero (absolute zero).

ABBREVIATIONS

AOA	Auditor Oversight Act
ARB	Accounting rules for banks, securities dealers, financial groups and conglomerates
AUD	Australian dollar
BIS	Bank for International Settlements
BoE	Bank of England
CAD	Canadian dollar
CCB	Countercyclical capital buffer
CFETS	China Foreign Exchange Trade System
CGFS	Committee on the Global Financial System
CHF	Swiss franc
CLS	Continuous Linked Settlement
CMF	Committee on Financial Markets
CNY	Chinese yuan (renminbi)
CO	Swiss Code of Obligations
CPI	Consumer price index
CPIA	Federal Act on Currency and Payment Instruments
CPMI	Committee on Payments and Market Infrastructures
CSSP	Committee on Statistics and Statistical Policy
DKK	Danish krone
ECB	European Central Bank
EPC	Economic Policy Committee
ESA	European System of National and Regional Accounts
ESMA	European Securities and Markets Authority
EUR	Euro
FDF	Federal Department of Finance
FER	Swiss Accounting and Reporting Recommendations (Swiss GAAP FER)
FINMA	Swiss Financial Market Supervisory Authority
FMI	Financial market infrastructure
FMIA	Federal Market Infrastructure Act
FMIO	Financial Market Infrastructure Ordinance
FOH	Federal Office for Housing
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GBP	Pound sterling
GDP	Gross domestic product
GP	General partner
HQLA	High-quality liquid assets
IBA	ICE Benchmark Administration
IBOR	Interbank Offered Rate (Libor, Tibor and Euribor)
ICE	Intercontinental Exchange

ICS	Internal control system
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
JPY	Japanese yen
KRW	South Korean won
LCH	LCH Clearnet Ltd
Libor	London Interbank Offered Rate
LP	Limited partner
MMDRC	Money market debt register claims
MoU	Memorandum of understanding
NAB	New Arrangements to Borrow
NBA	National Bank Act
NBO	National Bank Ordinance
NSFR	Net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
PBC	People's Bank of China
PFMI	Principles for Financial Market Infrastructures
PRGT	Poverty Reduction and Growth Trust (IMF)
Repo	Repurchase agreement
RWA	Risk-weighted assets
SARON	Swiss Average Rate Overnight
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SECO	State Secretariat for Economic Affairs
SEK	Swedish krona
SFSO	Swiss Federal Statistical Office
SGD	Singapore dollar
SIC	Swiss Interbank Clearing
SIF	State Secretariat for International Financial Matters
SNA	System of National Accounts
SR	Official Compilation of Federal Laws and Decrees
SNB	Swiss National Bank
SSM	Single Supervisory Mechanism
SWIFT	Society for Worldwide Interbank Financial Telecommunication
T2S	TARGET2-Securities
TLAC	Total loss-absorbing capacity
USD	US dollar

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