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# Capital and distribution of profit SNB's framework

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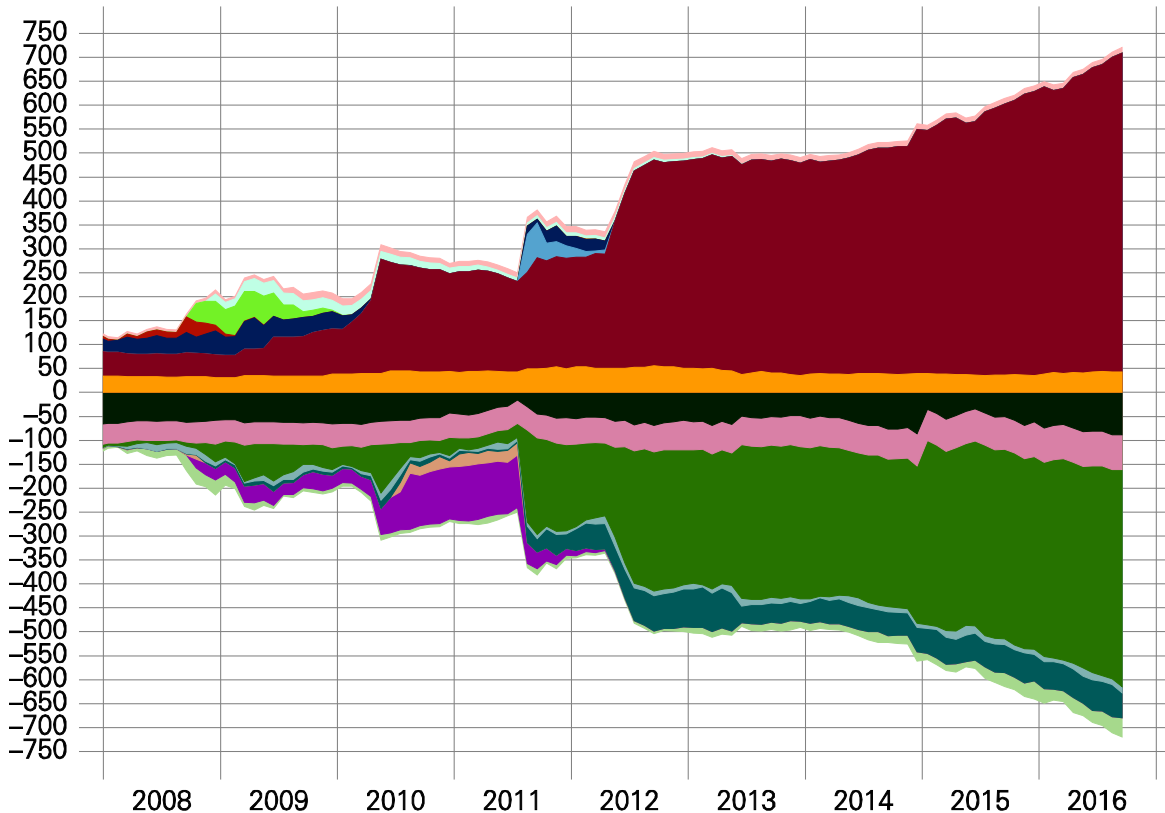


# SNB Balance Sheet

## BALANCE SHEET DEVELOPMENT

Monthly data, amounts at end of September 2016 in parentheses

bn CHF

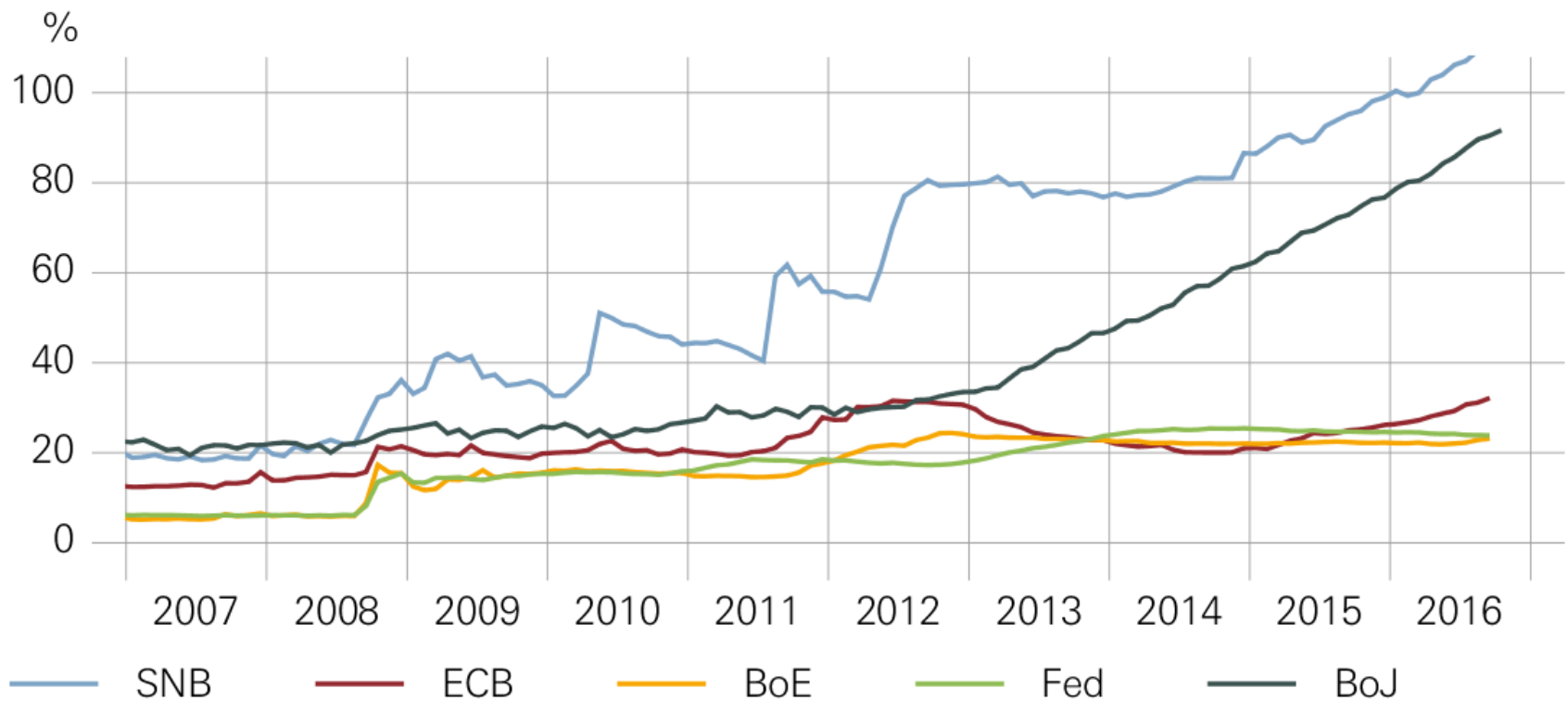


- Gold holdings (43)
- Foreign currency invest. (666)
- Foreign curren. invest. fr. Swaps (0)
- Claims from CHF repo transact. (0)
- Claims from USD repo transact. (0)
- Swap transactions against CHF (0)
- Loan to StabFund (0)
- Other Assets (11)
- Equity (89)
- Banknotes in circulation (73)
- Sight dep. of domestic Banks (453)
- Liab. towards the Confederation (13)
- Other sight Liabilities (52)
- Liab. from CHF repo transactions (0)
- SNB debt certificates (0)
- Other liabilities (40)

Source: SNB

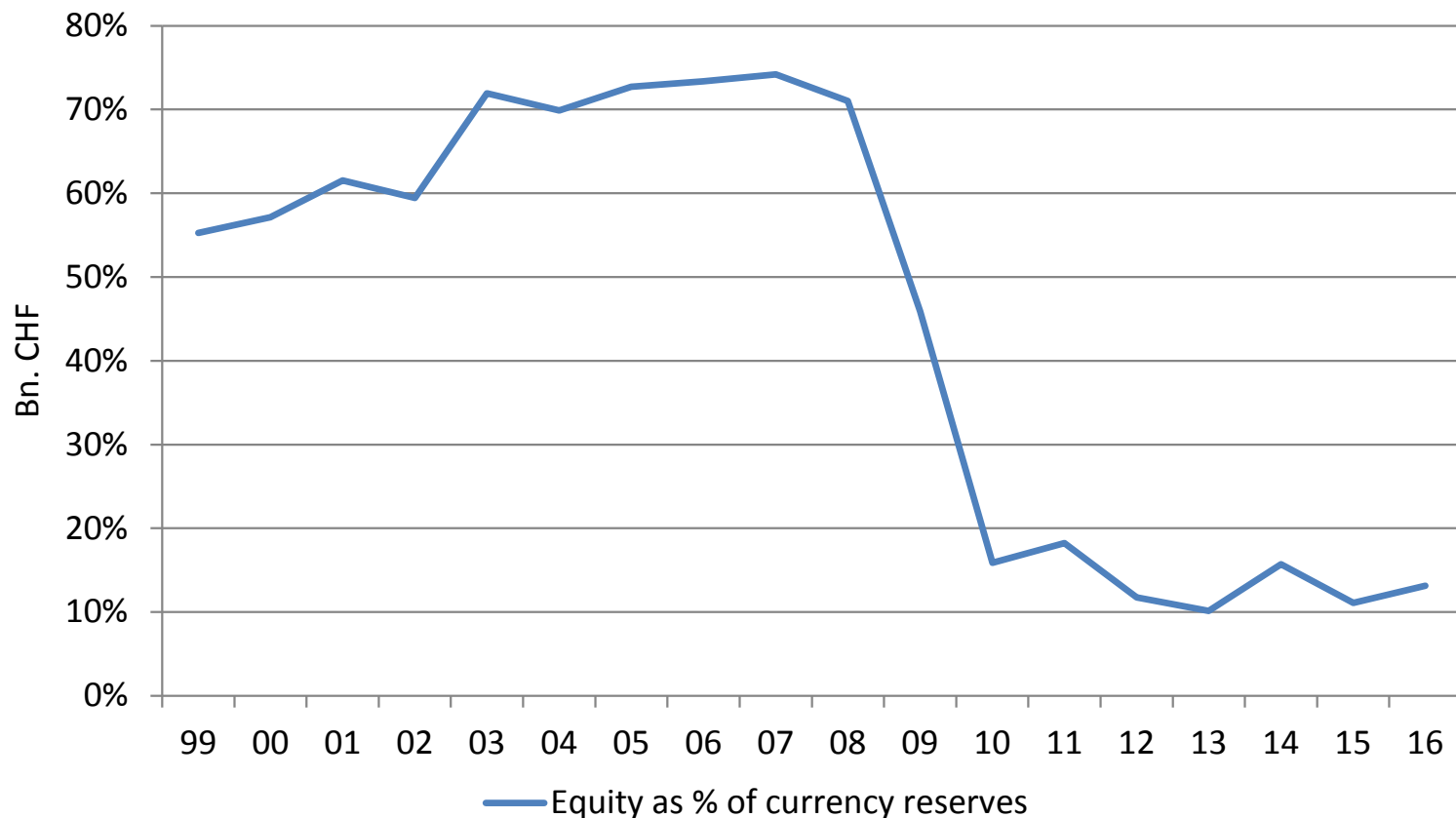
2016-09-30

# Central bank's total asset to GDP ratio



# SNB equity

## Equity as % of currency reserves



# Augmenting equity – legal basis

- National Bank Act - Art. 30 – Retention of earnings
  - The National Bank shall set up provisions permitting it to maintain the currency reserves at a level necessary for monetary policy. In so doing, it shall take into account the development of the Swiss economy.
  - The remaining earnings are deemed to be distributable profit.
- National Bank Act - Art. 31 - Distribution of profits
  - One-third of any net profit remaining [...] shall accrue to the Confederation and two-thirds to the cantons. The Department of Finance and the National Bank shall, for a specified period of time, agree on the amount of the annual profit distribution with the aim of smoothing these distributions in the medium term. [...]

# Protection of equity through distribution mechanism

## ➤ Massive financial exposure

- Significant size of balance sheet
- Assets almost entirely denominated in foreign currency

## ➤ Fair value accounting to P&L

- All assets are marked to market => massive fluctuations of P&L
- Highly transparent to public => trust-building
- Constant education of stakeholders => independence, reputation, credibility

## ➤ Framework

- Definition of equity target
- Rule based retention of earnings to augment capital
- Distribution of profits is contingent on the level of capital

# Agreement on the distribution of profits

## ➤ Determination of allocation to provisions

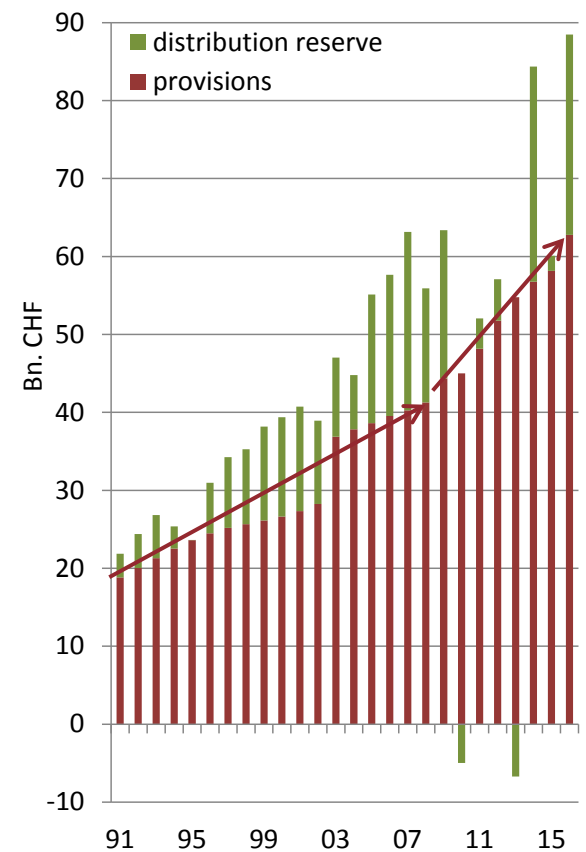
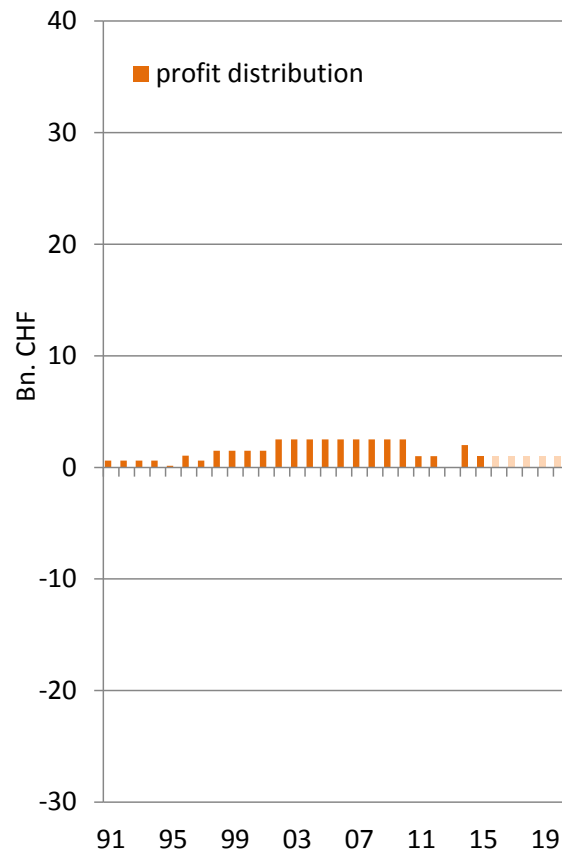
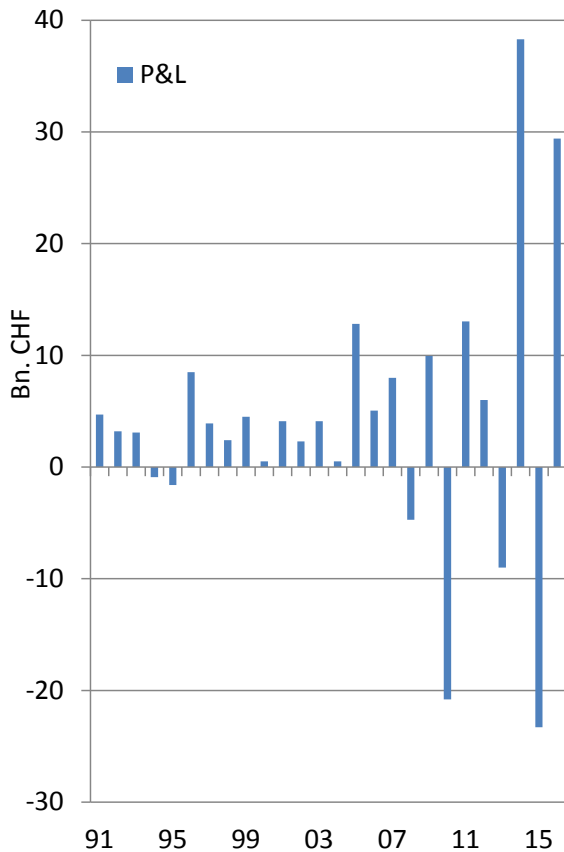
- Based on the average growth rate of Swiss-GDP over the past 5 years
- Since 2009: Average growth rate is multiplied by factor 2
- Since 2016: In addition, a floor has been put in place

## ➤ Profit distribution: New agreement with treasury (2016-2020)

- Smoothing of profit distribution over 5 year horizon
- General rule: Profit distribution of CHF 1 billion per year  
If distribution reserve level allows it: omitted former distributions will be made up for
- Defined thresholds for deviation in case of extraordinary level of distribution reserve:
  - If above 20 bn.: Additional distribution of max. CHF 1 billion per year
  - If negative: Cancellation of distribution

# Appropriation of profit

## P&L, profit distribution and equity capital





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# Thank you for your attention!

## Questions?

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