

Jean-Pierre Roth: Steps to strengthen the Swiss financial system

Introductory remarks by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank and Chairman of the Board of Directors of the Bank for International Settlements, at the news conference, Bern, 16 October 2008.

* * *

Pursuant to art. 5 of the Swiss National Bank Act (NBA), the SNB shall contribute to the development of our economy and the proper functioning of our monetary system.

This is why the SNB has decided to extend a loan not exceeding USD 54 billion to the special purpose vehicle (SPV) set up to take over illiquid assets currently held by UBS. A similar offer has also been extended to the CS Group, which has refrained from making use of such a possibility.

For the SNB, this operation is highly unusual, both with regard to its scope and the reasons for it.

Scope of operation

As to the scope of the operation, USD 54 billion is clearly a substantial amount for the National Bank. I would like to emphasise, however, that the loan amount is entirely guaranteed by the portfolio assigned by UBS, i.e. securities valued at USD 60 billion in the UBS balance sheet. Given the fact that in the past twelve months, UBS has made aggressive write-downs on its risky positions and that its portfolio is fairly diversified (it does not only consist of toxic assets), we feel that the risk of further losses on this portfolio is limited. We will, in any event, reassess the value of each portfolio component before making the transfer to the special purpose vehicle. The lowest valuation will be applied.

To secure initial financing for the operation, we will obtain US dollars through a Dollar-Swiss-Franc swap with the Federal Reserve. Thereafter, we will turn to the market for refinancing. The SNB will therefore not incur any currency risk. Since the entire operation will be effected in US dollars, it will not affect the National Bank's monetary policy in any way.

Reasons for operation

This operation is nevertheless unprecedented with regard to the reasons for it. In carrying it out, we are making a contribution to an essential element of the Swiss financial system, at a time when financial markets have been in turmoil for some months now. A better functioning of the financial markets – in particular the banking sector – is essential so that our country will be able to weather the economic difficulties resulting from the anticipated global economic slowdown in the months ahead. It is therefore preferable that we go ahead with this operation now, in an orderly fashion, despite the fact that the markets have regained a certain degree of optimism in the past few days – rather than at a later point under potentially more adverse conditions.

The Federal Council and the Swiss Federal Banking Commission have been kept abreast of the preparations underway and our negotiations with UBS.