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Liquidity against collateral: the SNB's approach

Money Market Event

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Introduction

Ladies and gentlemen

It is a great pleasure to welcome you to the Swiss National Bank's Money Market Event here in Geneva today. Opportunities to engage with you are always especially important to us.

The topic we would like to talk about directly links the day-to-day work of many market participants with the tasks of the SNB: our collateral policy. As part of its statutory tasks, the SNB provides the financial system with central bank liquidity. It always does so against collateral, and this has to meet requirements set out by the SNB in its collateral policy.

This collateral policy is a technical but important aspect of the Swiss financial system: it not only influences the SNB's provision of liquidity, but also shapes liquidity redistribution between banks in the money market.

The SNB provides liquidity to perform its statutory tasks

Before discussing the collateral policy, we would like to briefly explain why the SNB provides liquidity in the first place, and for what purpose. The answer can be found in the National Bank Act (NBA). The NBA assigns several tasks to the SNB.[1] It performs three of these tasks by making liquidity available to the financial system (cf. chart 1): first, providing the Swiss franc money market with liquidity and thereby implementing monetary policy; second, supporting cashless payments; and third, contributing to the stability of the financial system. Why does the law envisage this provision of liquidity?

Let's start with the Swiss franc money market. This is where financial institutions provide each other with short-term liquidity. The cash flows from these transactions are settled via sight deposits at the SNB and thus in central bank money. The total volume of these sight deposits is determined by the implementation of monetary policy. To keep the short-term money market rates close to the SNB policy rate, the SNB uses repo transactions to provide or absorb liquidity in the money market.

In the negative interest environment, the SNB occasionally supplied the market with liquidity despite there already being high levels available in the financial system. The aim was to counter temporary upward pressure on short-term money market rates. These operations are depicted by the blue bars in chart 2.[2] In the current environment with a non-negative SNB policy rate and the volume of liquidity still high, the SNB's open market operations in the money market are used to absorb liquidity.[3]

The second task for which the SNB provides the financial system with liquidity relates to cashless payments. Banks have to execute payments for themselves and for their customers

[1] Art. 5, para. 2 NBA.

[2] The SNB COVID-19 refinancing facility (CRF) introduced in 2020 is not included in the chart. It supports the implementation of monetary policy as well as financial stability.

[3] In addition to liquidity-absorbing repo transactions, the SNB issues SNB Bills (cf. Klossner, Myohl, Stadelmann (2026)). The SNB policy rate has not been negative since September 2022.

continuously throughout the day. Since payments are received and go out at different points in time, an individual bank may need additional liquidity at short notice. To ensure that payments function smoothly and efficiently, the SNB provides liquidity here too if necessary (cf. chart 2, red bars).[4]

The third task relates to the SNB's contribution to the stability of the financial system. If a bank deems its own liquidity buffers no longer sufficient, the SNB can grant it liquidity support. The yellow bars in chart 2 show the liquidity support provided by the SNB during the crisis at Credit Suisse.[5]

Today's Money Market Event will focus on the first two tasks: the provision of liquidity to the Swiss franc money market, and payments.

The collateral policy creates the framework for the provision of central bank liquidity

Under the National Bank Act, the SNB is obligated to provide liquidity only against sufficient collateral.[6] Why is this requirement important?

Supplying liquidity entails a credit risk for the SNB vis-à-vis its counterparty. If the latter is unable to meet its obligations, the SNB can sell the deposited collateral and thereby avoid incurring any loss.[7] Sufficient collateralisation thus limits the SNB's financial risks, protects its balance sheet and helps to preserve its financial independence. It is thus an important prerequisite for the SNB to be able to perform its statutory mandate over the long term.

The SNB's collateral policy sets out the principles for the collateralisation of its credit and repo transactions. A good collateral policy has three characteristics: It must be effective, efficient and transparent. Let's look at this in more detail.

An effective collateral policy takes into account which assets market participants can actually deliver as collateral. Legal and operational preparations must be made for these assets to be used as collateral and for a valid security interest to be established in favour of the SNB.[8]

A collateral policy is efficient if the collateral can be mobilised quickly, reliably and with reasonable operational effort when needed. This is achieved in different ways depending on

[4] For this purpose, the SNB offers two facilities. The intraday facility enables liquidity to be drawn during the day. The liquidity-shortage financing facility (LSFF) serves to bridge liquidity shortages until the next bank working day. The SNB is planning to introduce a new Payment System Support Facility (PSSF) in November 2027.

[5] Previously this was provided exclusively for systemically important banks in the form of emergency liquidity assistance (ELA). The Extended Liquidity Facility, ELF for short, will go into operation at the beginning of 2027 and will be available in principle to all Swiss banks. More information on the ELF is available on the SNB's website.

[6] Art. 9 para. 1 (e) NBA.

[7] The SNB regularly reassesses the monetary value of the collateral. If it falls too strongly, the counterparty must provide additional collateral to ensure that the liquidity granted is sufficiently collateralised at all times. In the case of its standing facilities, the SNB also requires overcollateralisation. This protects against realisation risk – i.e. that, in the event of a counterparty defaulting, the collateral cannot be liquidated immediately or only at a discount.

[8] Not all assets are equally suitable. Assets that have already been pledged, for example, cannot be used as collateral and for establishing a valid security interest in favour of the SNB.

how the liquidity is supplied. In the case of our liquidity-shortage financing facility (LSFF) for example, the collateral must be deposited in a custody cover account. The advantage of this pre-positioning is that the collateral can be realised quickly when needed.

Finally, a transparent collateral policy offers planning certainty: Market participants know for sure which assets they can use as collateral and what preparations are necessary. Standardised and transparent rules also ensure that counterparties are treated equally.

The SNB GC Basket as the collateral standard

And so we come to the next question: What collateral does the SNB accept when it provides liquidity for the implementation of its monetary policy or to support payments?

This is determined by the SNB General Collateral Basket, or SNB GC Basket for short, which comprises all the securities that the SNB accepts as collateral.[9] Two aspects are particularly important for the SNB when determining the SNB GC Basket. First, the eligible collateral must effectively protect the SNB's balance sheet in the event of a counterparty's default. Second, the collateral basket must be broad enough to ensure that counterparties have sufficient usable collateral available to them, even if market conditions change.

The SNB GC Basket is high-quality and liquid

Let us start by looking at the requirements regarding the quality of eligible securities. A key factor for inclusion is creditworthiness. All securities in the SNB GC Basket fulfil the criteria for high-quality liquid assets (HQLA). Banks can use the classification published by the SNB for the HQLA categorisation of their own assets for their regulatory reporting.[10]

Both the issuer's country of domicile and the securities concerned must have at least an AA– rating. This is generally based on the second-highest rating awarded for the bond by the rating agencies Standard & Poor's, Moody's and Fitch. However, special rules apply to certain issuer categories and securities. For example, Confederation bonds and SNB debt certificates (SNB Bills) are eligible irrespective of the rating requirements.

Just under 60% of the securities in the SNB GC Basket are rated AAA, while the remaining 40% or so are rated AA (cf. chart 3). This high creditworthiness is also reflected in the composition of the basket by issuer category: With a share of over 60%, central governments are the largest group. Supranational issuers account for just under 15%. The remainder consists mainly of covered bonds and bonds issued by various public entities (cf. chart 4).

[9] The criteria for the inclusion of securities in the SNB GC Basket are detailed in the Instruction sheet on collateral eligible for SNB repos. In accordance with art. 2 (b) FinMIA, securities are standardised certificated and uncertificated securities, as well as derivatives, which are suitable for mass trading.

[10] According to FINMA Circular 2015/2 Liquidity risks Banks (in German, French and Italian), banks may base the HQLA categorisation of their assets on the classification of collateral eligible for SNB repos published by the SNB. From January 2027, this regulation will be incorporated into the FINMA Ordinance on the Liquidity of Banks and Securities Firms.

In addition to the high rating requirements, the securities in the SNB GC Basket must also be sufficiently liquid and readily usable in operations. The SNB therefore sets minimum requirements with regard to outstanding volume and listing, as well as settlement and custody. The securities must be deliverable via SIX SIS with intermediate and ultimate depositories in eligible jurisdictions. In this way, the SNB ensures that the collateral not only has high and consistent credit quality, but that it is also available when needed and can be efficiently transferred.

The SNB GC Basket is broad-based

However, in order for counterparties to have enough usable collateral under different market conditions, the composition of the SNB GC Basket must also be sufficiently broad.

This is particularly relevant in the Swiss context. The Swiss banking sector is large relative to the domestic bond market: Its aggregate balance sheet total is around CHF 3.4 trillion, while the Swiss franc bond market has a volume of only about CHF 680 billion. Of this, around two-thirds – about 1,000 bonds with a volume of approximately CHF 450 billion – meet the requirements for inclusion in the SNB GC Basket.

To give counterparties a sufficiently broad pool of eligible collateral, the SNB therefore accepts foreign currency bonds as well as Swiss franc bonds. The SNB GC Basket comprises bonds in seven currencies of around 200 issuers from over 20 countries.[11] At the end of September, the SNB GC Basket contained more than 3,000 bonds with a nominal volume of around CHF 10 trillion.

The international focus of the SNB GC Basket is reflected in the currency breakdown in particular. Euro-denominated bonds currently account for 56% of the basket, followed by bonds in pounds sterling with 31%. By contrast, the share of bonds denominated in Swiss francs is only around 4% (cf. chart 5).

Before considering the importance of the SNB GC Basket for the money market, it's worth taking a quick look at how it is continuously updated. The basket is not static. The SNB continuously reviews the securities contained in it and updates the list of collateral eligible for SNB repos on a daily basis.

Newly issued securities are accepted by the SNB provided they meet the inclusion criteria. Conversely, the SNB removes securities, for example when they mature or are redeemed by the issuer. Adjustments may also become necessary if there is a change in facets of a security or of its issuer that are relevant for eligibility, for instance as a result of a new credit rating.[12]

[11] In 2007, the SNB expanded its pool of eligible collateral, in particular to include bonds from borrowers domiciled in the European Union and the European Economic Area. In so doing, it took account of changed conditions in the financial markets.

[12] One example here is the downgrade of France in autumn 2025. Following this downgrade, French government bonds no longer met the SNB's credit rating requirements and could therefore no longer be used as collateral in SNB repo transactions.

The current list of all the securities contained in the SNB GC Basket is published on the SNB website on a daily basis.[13]

The market uses the SNB GC Basket as a standard

With the SNB GC Basket, the SNB defines the collateral against which it makes liquidity available to market participants in the context of implementing its monetary policy and supporting payments. However, its importance extends beyond the SNB's transactions.

In the Swiss interbank repo market, banks trade secured liquidity with each other. Although they can in principle agree on other collateral or collateral baskets, in practice this market largely aligns with the SNB GC Basket. Over the past five years, an average of around 90% of all transactions have been secured using securities from the SNB GC Basket (cf. chart 6).[14] The SNB GC Basket has thus established itself as the common collateral standard for the SNB and the market.[15]

Although the SNB GC Basket contains over 3,000 bonds, actual usage focuses on a smaller pool of securities. This is primarily due to the structure of the cash takers in the current monetary policy environment. They are predominantly domestic banks, which generally have substantial holdings of high-quality Swiss franc bonds that they post as collateral.[16]

Accordingly, these bonds comprise the largest share of the collateral used in the Swiss repo market. Around 45% of the collateral used is made up of bonds issued by the two central mortgage bond institutions in Switzerland.[17] Bonds issued by the Swiss Confederation and the cantons account for a further 20% or so, while around 4% is made up of SNB Bills. Thus, just under 70% of the collateral used comes from a few large issuers. The remaining around 30% is spread across more than 400 other issuers (cf. chart 7).

The concentration on high-quality Swiss issuers is also evident in the credit quality of the collateral actually used. Around 70% of this is rated AAA, compared to just under 60% in the SNB GC Basket as a whole. This is due, in particular, to the high weighting of the two mortgage bond institutions and the Swiss Confederation, which are rated AAA (cf. chart 8).

There is also significant concentration in the currency breakdown of the collateral actually used. As we have seen, Swiss franc bonds account for only around 4% of the outstanding volume of the SNB GC Basket. However, they make up some 90% of the collateral actually used in the money market. Bonds in euros, Danish kroner and US dollars have much smaller

[13] The online instrument search is available at collateral.snb.ch.

[14] Cf. Klossner, Mlikota, Stadelmann (2026).

[15] The structure of the Swiss repo market also contributes to this high level of usage. The market is primarily used for liquidity redistribution and is predominantly cash-driven. Transactions which focus on a specific security – known as 'special repos' – play a more minor role.

[16] These constitute a significant part of their HQLA portfolio held to meet regulatory liquidity requirements.

[17] There are two mortgage bond institutions authorised under the Mortgage Bond Act (MBoA) in Switzerland: the mortgage bond bank of the Swiss mortgage institutions (Pfandbriefbank schweizerischer Hypothekarinstitute AG) and the mortgage bond institute of the Swiss cantonal banks (Pfandbriefzentrale der schweizerischen Kantonalbanken AG).

shares of around 5%, 2.5% and 2.5% respectively. Other currencies together account for only about 0.2% of the collateral used (cf. chart 9).

The widespread use of the SNB GC Basket in the interbank repo market creates a close link between the money market and the SNB's monetary policy operations. In Switzerland, this is further strengthened by the close interrelationship between the trading, settlement and payment systems. For its money market operations, the SNB uses the same trading platform, settlement and payment systems as other interbank market participants.[18] This integrated infrastructure reduces frictions in the mobilisation of collateral between interbank and SNB transactions, and enables the efficient settlement of repo transactions.

The common collateral standard and integrated infrastructure make it simpler for market participants to quickly mobilise collateral and use it either in interbank transactions or in transactions with the SNB. This special characteristic of the Swiss market supports the liquidity of the Swiss franc repo market and makes it easier for the SNB to both implement its monetary policy effectively and ensure smooth and efficient payments.

The SNB reviews its collateral policy on an ongoing basis

Let us conclude by looking to the future. The collateral policy is not a static set of rules. It has to remain effective even when conditions change. The SNB therefore regularly reviews its collateral policy and adjusts it as necessary. To this end, it maintains dialogue with market participants and financial market infrastructure operators.

A key driver of such adjustments is technological developments, for example in the area of payments. With the increasingly widespread use of instant payments, banks can also face a need for short-term liquidity outside their existing operating hours. The SNB is taking this development into account with its new Payment System Support Facility, or PSSF for short.[19]

Counterparties can use the PSSF to obtain liquidity via the SIC system 24 hours a day, 7 days a week, up to a limit set by the SNB. As a prerequisite, they must have sufficient eligible securities deposited in their PSSF custody cover account. This collateral is managed via SIX SIS's Triparty Collateral Management (TCM) service.

Compared to the current intraday facility and liquidity-shortage financing facility, where overcollateralisation is effected by means of an initial margin, under the PSSF it will be ensured by haircuts. This is made possible through the use of the TCM service. This change brings collateralisation under this facility closer to established practice at other central banks.

Another example of a technological development that has led to an adjustment in the collateral policy is financial market infrastructures based on distributed ledger technology

[18] The Swiss Money Market Value Chain comprises the CO:RE trading platform operated by SIX Repo Ltd, the SIX SIS triparty agent, the SECOM securities settlement system and the central Swiss Interbank Clearing (SIC) payment system (cf. Moser, Tschudin (2024)).

[19] The PSSF is expected to go into operation in November 2027. It will replace the current intraday facility and, after a transition phase, also the liquidity-shortage financing facility. Cf. Information on the design and technical implementation of the Payment System Support Facility (PSSF), 15 April 2026.

(DLT). Among other things, these enable the issuance, custody and transfer of digital bonds on a single platform.[20]

Since 2023, the SNB GC Basket has also comprised digital bonds, including bonds issued via SIX's DLT infrastructure. Since these bonds can be delivered via SIX SIS, they can be used just like conventional securities as collateral for repo transactions with the SNB.

Conclusion

To summarise, in order to perform its various statutory tasks, the SNB provides central bank liquidity and always does so against sufficient collateral. Its collateral policy ensures that this liquidity is provided in an effective, efficient and transparent manner.

The SNB reviews its collateral policy on an ongoing basis and adjusts it as necessary to take account of changed market conditions and technological developments. We'd now like to discuss in the panel what developments are worth particular consideration for the future design of the SNB's collateral policy.

[20] In Project Helvetia, the SNB is exploring various approaches to settling tokenised assets in central bank money. In so doing it is gaining practical experience both with integrated settlement using central bank digital currency for financial institutions (wholesale CBDC) on a DLT-based platform and with settling tokenised assets in traditional central bank money via a link to the SIC system. The project will run until at least June 2028.

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