Swiss Banking

POSITION

SNB instruments for providing liquidity

In brief

1) Bank runs can be much more severe these days and can affect any bank. This makes the efficient provision of liquidity to the money market from the Swiss National Bank (SNB) in a financial crisis all the more important with regard to stabilising the system.
2) The SNB's instruments for this purpose must therefore be reassessed. The Swiss Bankers Association (SBA) has identified seven topics that need to be addressed.
3) The aim must be for all banks, provided they are solvent and meet certain conditions, to receive fast and flexible liquidity assistance from the SNB against readily available and fungible collateral, in particular when they are no longer able to refinance their operations on the market.
4) A targeted optimisation of liquidity provision would contribute substantially to securing the stability of the system and significantly reduce the risks for the Confederation, for example by preventing the need to invoke a public liquidity backstop.

The SBA therefore believes that the SNB's instruments for providing liquidity to the money market must be analysed and optimised in a targeted manner.

The severity of bank runs has taken on new dimensions. The digital transformation and social networks have played a part here, as illustrated by the demise of Credit Suisse, but any bank, however large, can be affected. This new situation requires financial market participants, authorities and central banks to review their frameworks for ensuring the uninterrupted provision of liquidity.

The focus here is on the SNB providing liquidity to the money market. Like other central banks, its role as lender of last resort entails providing solvent banks with liquidity against collateral, in particular when they are no longer able to refinance their operations on the market. However, the current procedures, especially those for providing emergency liquidity assistance (ELA), are not necessarily sufficient to cover liquidity needs in every crisis. All stakeholders must therefore act to significantly reduce the likelihood of the State and taxpayers having to take on risks, for example in the form of a public liquidity backstop.

The SBA welcomes the fact that the SNB's instruments for providing liquidity are being subjected to analysis in light of the latest findings and in comparison with other countries. The recommendations put forward by the Expert Group on Banking Stability offer useful input for a thorough review. Beyond existing initiatives, there is potential to make the SNB's toolkit more systematic and flexible in line with market-driven principles and thus ensure the efficient provision of liquidity when needed for all solvent banks, provided they fulfil the necessary prerequisites.

Aims and approaches to making the SNB instruments more flexible

All solvent banks should be able to benefit from fast and flexible temporary liquidity assistance with no stigma secured by readily available, fungible and freely transferable collateral, in particular when they are no longer able to refinance their operations on the market. The focus here is on ELA, but a thorough review of the SNB's entire toolkit is needed, i.e. including the repo basket and the liquidity-shortage financing facility (LSFF). The SBA has identified seven topics that must be addressed by this review:

(1) **Expanding the scope of the SNB repo basket.** The SNB repo basket could be optimised by permitting a broader spectrum of highly liquid assets as collateral.

(2) **Scope of eligible collateral for the LSFF.** Expanding the scope of assets eligible as collateral for the LSFF could allow it to play a more important role in the overall toolkit.

(3) **Making the LSFF more flexible.** The requirements for the LSFF should ensure that liquidity can be supplied as quickly and flexibly as possible when needed. To this end, the existing procedure for increasing limits should be reviewed and accelerated.

(4) **Explicitly expanding the scope of eligible collateral for ELA.** ELA is a powerful instrument, but the current focus on mortgages is not sufficient to cover every liquidity need in a crisis. ELA must be designed so that, in principle, all assets that typically form part of a bank's balance sheet and are readily available and fungible can be used as collateral. This should be set down in binding form and implemented in practice.

(5) **Access to ELA for all banks.** The potentially broad spectrum of ELA has hitherto been available only to systemically important institutions. The SNB's initiative for mortgages is an exception here, but it will take a very long time to implement. This is another reason why the entire spectrum of ELA should be opened up to all banks.

(6) **Reducing the stigma effect.** Any bank accepting ELA sends out a clear signal that is in trouble. This can exacerbate the crisis. Stigma effects of this kind need to be drastically reduced. The best solution overall would be to transition as seamlessly as possible from ordinary to extraordinary liquidity facilities, as is the case in some other countries.

(7) **Ensuring the transferability of unsecuritised bank assets.** A legally secure and bankruptcy-proof transfer of collateral to the SNB currently requires contractual transfer clauses. It is almost impossible to realise these in a crisis. Thought must therefore be given to optimisation and new concepts.

Concluding remarks

If the banks had greater scope for refinancing, the SNB could avoid pushing or even going beyond the limits of its mandate in a future crisis. The likelihood of the Confederation having to intervene would also be significantly reduced.

The SBA therefore sees it as essential for the topics it has identified to be addressed in the review of the SNB's instruments. This review should be conducted by a joint working group on the basis of the Federal Council's "too big to fail" report. The SBA and its members would be willing to take part.