Notes on the profit distribution agreement of 9 November 2016 between the Federal Department of Finance and the Swiss National Bank for the period 2016–2020

1. Background

The profit distribution agreement of 21 November 2011 between the Federal Department of Finance (FDF) and the Swiss National Bank (SNB) expired in the 2015 financial year.

The FDF and SNB committed to taking over the key elements of the old agreement and made two amendments with respect to potential supplementary distributions.

2. Key elements unchanged

The agreement will once again run for five years (2016–2020).

The five-year term has proved its worth. It both allows for distribution flows to be smoothed and, thanks to the periodic review provision, ensures there is sufficient flexibility to take account of medium-term developments.

CHF 1 billion to be distributed annually to the Confederation and the cantons.

The significant lengthening of the SNB's balance sheet means that balance sheet risks have also increased, as loss-absorbing capital has not been supplemented proportionately. At the same time, due to the low interest rate environment, earnings potential has only increased relatively modestly. Against this backdrop, it has become a priority for the SNB to build up equity capital. An annual profit distribution of CHF 1 billion remains appropriate.

If the balance of the distribution reserve is negative, the distribution will be reduced or suspended.

This condition ensures that a profit distribution does not cause equity capital to drop below the amount available in the provisions.

3. Amendments

Omitted profit distributions to the Confederation and the cantons may, under certain circumstances, be made up in subsequent years.

Omitted profit distributions may be made up, provided doing so does not turn the balance of the distribution reserve negative. This clause helps to ensure that the total amount of distributed profit over the term of the agreement is not contingent on the result of a given financial year.

The threshold for a supplementary distribution in excess of any payments making up for omissions in previous years will be raised; this supplementary distribution amount will be set at CHF 1 billion per year.

The 2011–2015 agreement provided for a supplementary distribution if the distribution reserve exceeded CHF 10 billion. Given that the SNB’s balance sheet has once again lengthened considerably in the period since 2011, and that this is likely to lead to greater variability of annual results in the future, this threshold has been raised to CHF 20 billion.

Furthermore, this supplementary distribution is now defined in the agreement in advance and is capped at CHF 1 billion per year. The provision in the 2011–2015 agreement whereby the FDF and the SNB determine the amount of any supplementary distribution therefore lapses.