



Notes on the profit distribution agreement of 29 January 2021 between the FDF and the SNB for 2020 to 2025

1. Background

The profit distribution agreement between the FDF and SNB of 9 November 2016, as amended by the supplementary agreement of 28 February 2020 and referred to below as ‘the 2016 Agreement’, is due to expire. A new agreement therefore needs to be concluded for the 2021 financial year and the years thereafter.

The 2016 Agreement provides for a maximum annual distribution of CHF 2 billion. The amendment of 28 February 2020 provided for supplementary distributions of CHF 2 billion for the 2019 and 2020 financial years, if the corresponding criteria were met.

The FDF and the SNB decided that a new agreement covering the period through to 2025 should already apply to the 2020 financial year. The new agreement therefore covers the six financial years 2020 to 2025. It thus already replaces the 2016 Agreement.

2. Increase in the maximum distribution to CHF 6 billion per annum

Since the expiring agreement was concluded in 2016, there has been significant further growth in the SNB’s balance sheet. Owing to the good investment results in recent years, the distribution reserve is also substantially higher than when the 2016 Agreement was entered into. These developments already made it possible to increase the maximum annual distribution for the last two financial years (2019 and 2020) of the expiring agreement. The supplementary agreement of 28 February 2020 provides for additional annual distributions of up to a maximum of CHF 2 billion, i.e. a maximum total distribution of CHF 4 billion per annum. It was also stipulated with a view to the next agreement that the FDF and SNB should

examine whether the framework for the distribution to the Confederation and the cantons could be increased.

Both the SNB's balance sheet and the distribution reserve have increased further since the supplementary agreement was concluded. In light of this, the SNB is able to increase the maximum annual distribution to CHF 6 billion for the duration of the new agreement. The comfortable level of the distribution reserve at the end of 2020 also means that CHF 6 billion can be distributed to the Confederation and the cantons for the 2020 financial year. The entry into force of the new agreement has thus been brought forward, and it already covers the 2020 financial year.

3. Net profit

The significant lengthening of the SNB's balance sheet means that the balance sheet risks have also increased. To ensure a robust balance sheet the SNB must have a solid equity capital base. The provisions for currency reserves and the distribution reserve serve to ensure that the SNB holds sufficient equity capital to also absorb large losses. Allocations are made to these provisions every year. In light of the higher balance sheet risks, the SNB plans to increase these allocations.

The portion of the annual result remaining after such allocations together with the distribution reserve comprise the net profit. The latter is available for the dividend and the profit distribution to the Confederation and the cantons. A profit distribution can therefore be made if there is a net profit. In the event of a net loss, no profit distribution can be made.

The distribution reserve can become negative as a result of losses or the allocation to the provisions, but not as the result of a profit distribution. This prevents the SNB's equity capital from falling below the level of the provisions – and thus the desired level at that point in time – *because of a distribution*.

4. The amount of the annual distribution depends on the level of the net profit

The annual distribution comprises a base amount of CHF 2 billion, which is distributed if there is a net profit of at least CHF 2 billion and provided that the amounts distributed to the Confederation and the cantons together with the dividend paid to shareholders (max. CHF 1.5 million) do not result in a negative distribution reserve.

If the net profit is less than CHF 2 billion, the amount of the net profit – after deduction of the dividend – is distributed to the Confederation and the cantons. In addition, there are four thresholds that must be reached in order for corresponding supplementary distributions to be made (up to a maximum total distribution of CHF 6 billion).

These thresholds take account of the fact that the fluctuation range for the anticipated results corresponds to a multiple of the expected values. With a balance sheet length of around

CHF 1,000 billion, and with the assets comprising almost exclusively investments denominated in foreign currencies, positive or negative results in the double-digit billions are to be expected. Against this backdrop, earnings forecasts are subject to a very high level of uncertainty.

The approach centred on a base amount and the four thresholds addresses this uncertainty. It allows the recipients to participate in the net profit should the recent good results prove to be sustainable and the level of the distribution reserve thus remains sufficient. It also ensures sufficient flexibility in that the annual distribution will be reduced in the event of a decrease in the distribution reserve. This ensures the desired smoothing and also takes account of the principle that the amount of the distribution should be dependent on the SNB's financial situation.