



A Swiss Sovereign Wealth Fund Opportunities and Risks

Stefan Gerlach, Yvan Lengwiler and Charles Wyplosz

Our Purpose

Monetary policy is important. It has broad effects across the economy, affecting young and old, poor and rich, savers, home buyers, firms and workers, profits and wages, the business cycle, and the long-term prosperity of the country.

Public debate about monetary policy is vital not only for basic democratic reasons, but also for the SNB to explain its views, and to listen to the views of the public it serves. The SNB Observatory aims to promote such a constructive debate based on facts and economic science.

The SNB Observatory is currently run by Stefan Gerlach, Yvan Lengwiler, and Charles Wyplosz.

An executive summary is located at the end of the document.

Eine Kurzfassung befindet sich am Ende des Dokuments.

Un résumé exécutif se trouve à la fin du document.

For all our contributions, browse to snb-observatory.ch
For inquiries, please email to contact@snb-observatory.ch

ABSTRACT

Through large-scale and nearly continuous foreign exchange market interventions, the SNB has accumulated a large stock of foreign currency assets. It is highly likely that the bulk of this stock will stay for years to come, possibly further rising. In practice, this is wealth and it belongs to the Swiss people. What to do with this wealth?

We examine what it would mean to transfer this wealth to a Sovereign Wealth Fund (SWF). Such a transfer has important advantages. It would free the SNB from political pressure on its management of the funds and it would reduce the financial risks that it currently bears, thus allowing it to focus exclusively to running monetary policy. In contrast, the SWF would be a for-profit institution, seeking the best risk-adjusted returns from the wealth. It could distribute all its profits to the Confederation and the cantons.

However, important details must also be examined. The SWF should not sell or buy foreign currencies to ensure that the SNB remains fully in charge of exchange rate policy. It should be independent, but accountable to the Swiss people through their elected representatives. We identify and analyze various institutional arrangements.

ZUSAMMENFASSUNG

Die Nationalbank hat durch ihre umfangreichen und fast stetigen Devisenmarktinterventionen einen hohen Bestand an Fremdwährungsreserven aufgebaut. Es ist davon auszugehen, dass der grösste Teil dieses Bestandes noch über Jahre hinweg bestehen bleibt und möglicherweise weiter ansteigt. Dies stellt ein Vermögen dar, das dem Schweizer Volk gehört. Was ist mit diesem Vermögen zu tun?

Wir untersuchen, was es bedeuten würde, dieses Vermögen auf einen Staatsfonds (SWF) zu übertragen. Eine solche Übertragung hat bedeutende Vorteile. Die SNB würde von politischem Druck befreit, der mit dem Management dieses Vermögens einher geht. Das finanzielle Risiko, das sie heute trägt, würde beträchtlich verringert, so dass sie sich ausschliesslich ihrem Mandat, der Durchführung der Geldpolitik, widmen könnte. Im Gegensatz dazu wäre der Staatsfonds eine gewinnorientierte Einrichtung, welche die besten risikobereinigten Erträge aus dem Vermögen anstrebt. Er könnte seine gesamten Gewinne an den Bund und die Kantone ausschütten.

Allerdings müssen einige wichtige Details sorgfältig geprüft werden. Der Staatsfonds sollte keine Fremdwährungen verkaufen oder kaufen, um sicherzustellen, dass die SNB die volle Kontrolle für die Wechselkurspolitik behält. Er sollte unabhängig sein, aber dem Schweizer Volk über seine gewählten Vertreter Rechenschaft ablegen. Wir identifizieren und analysieren verschiedene institutionelle Arrangements.

RÉSUMÉ SUCCINT

La BNS a accumulé ces dix dernières années un stock important d'actifs en devises, la conséquence de ses interventions sur les marchés des changes. Il est fort probable que la majeure partie de ce stock restera sur son bilan pendant des années encore, voire augmentera encore. En pratique, il s'agit d'une richesse et elle appartient au peuple suisse. Que faire de cette richesse?

Nous examinons ce que signifierait le transfert de cette richesse à un fonds souverain. Un tel transfert présente des avantages importants. Il libérerait la BNS de pressions politiques et réduirait les risques financiers qu'elle supporte actuellement, ce qui lui permettrait de se concentrer exclusivement sur la gestion de la politique monétaire. Le fonds souverain serait une institution à but lucratif, qui rechercherait les meilleurs rendements en fonction des risques tolérés. Il distribuerait tous ses bénéfices à la Confédération et aux cantons.

Toutefois, des détails importants doivent être examinés. Le fonds souverain ne devrait pas vendre ou acheter de devises étrangères afin de garantir que la BNS soit entièrement responsable de la politique de change. Il devrait être indépendant, mais responsable devant le peuple suisse par l'intermédiaire de ses représentants élus. Nous identifions et analysons différents arrangements institutionnels.

1. The issue

Before the Global Financial Crisis of 2008, central banks' balance sheets and profits, including the SNB's, were small. Since they adopted Quantitative Easing (QE), their balance sheets have become much larger. The Federal Reserve's balance sheet today exceeds 30% of annual US GDP. And the balance sheets of the ECB, Bank of Japan, and Bank of England are of the same size or even larger. Their potential to generate revenues and profits is therefore more important today.

Table1 *Relative size of central banks.*

Central Bank	Balance sheet (% GDP)	Foreign assets (% GDP)
Federal Reserve	35.2	0.2
Bank of England	27.0	0.9
Bank of Japan	130.5	1.2
ECB	61.8	3.3
SNB	142.4	131.9

Note: Data for end December 2020, except Bank of England (end of 2019). Sources: National central banks and OECD.

The SNB is special in two ways: its balance sheet dwarfs those of most other central banks and, crucially, its assets are mostly in foreign currencies. Its version of QE consisted in acquiring foreign currencies to prevent the franc from appreciating. It has now amassed assets that amount to close to 1 trillion CHF. Its stock

of foreign currency assets is worth more than 130% of annual Swiss GDP. This is unique.

The SNB's accumulation of foreign asset is a result of its foreign exchange interventions designed to prevent the franc from appreciating. It is important to understand that the SNB cannot simply shrink its balance sheet by selling its dollars, euros and gold. This would appreciate the franc and would not be an appropriate monetary policy given Swiss

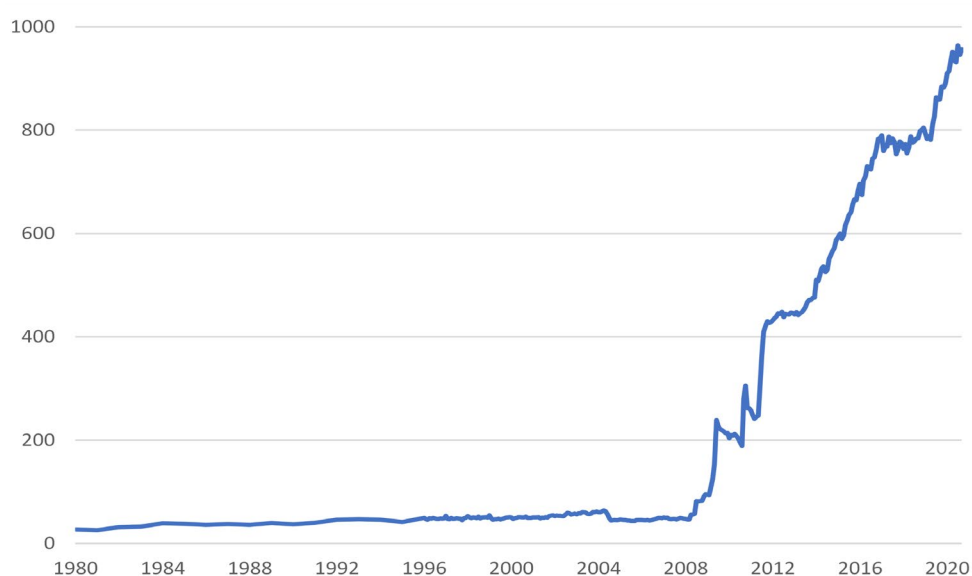


Figure 1 Foreign currency investments (in billion CHF, data from SNB).

BOX 1 Are the SNB's foreign assets wealth?

Many countries that have accumulated significant public wealth — generally because they have substantial natural resources — have created Sovereign Wealth Funds (SWFs). Is the wealth of the SNB different from the wealth of, say, the Norwegian SWF?

Some observers note that Norway funds its SWF with revenues from its oil industry. These earnings are irrevocable — Norway can never be asked to buy back the oil that it has sold. By contrast, the SNB increases its foreign currency investments by selling Swiss francs. Could the SNB be required to buy back these liabilities?

Legally, the SNB cannot be required to take back the francs because francs are no longer redeemable in gold as they used to be. But the SNB could decide to buy back the francs if current holders start to sell and provoke a sizeable depreciation, with a potentially inflationary impact.

As long as the Swiss franc is perceived as a safe haven, investors are willing to hold them, even if the return is lower than on other currencies. Switzerland will very likely remain a safe haven for many years to come, and the demand for francs will continue to grow. Under this scenario, the foreign currency assets of the SNB are indeed wealth.

economic conditions. Thus, the SNB, and Switzerland, is stuck with these assets.

But are they wealth? As is explained in Box 1, they are, and the analysis below is relevant, as long as the franc remains a strong currency. We believe that this is a very likely scenario for the foreseeable future. Switzerland must draw the consequences from its very large foreign assets and the fact that they are here to stay.

It is time to have a public discussion about what to do with this wealth. We examine the possibility of setting up a Sovereign Wealth Fund (SWF). This has been proposed repeatedly in the past, and always rejected without much discussion. The purpose of this report is to promote such discussion: we examine the opportunities that a SWF would represent and the risks it could entail.

2. Challenges for the SNB

The value of SNB foreign assets and the return that they generate are not a negligible anymore. Every percent return from these assets amounts to roughly 10 billion CHF. Compare this to the receipts generated by VAT of

about 23 billion CHF, or to the sum of all the fiscal receipts of the Confederation, cantons, and communes together of about 200 billion CHF.

Finding 1. *The SNB's balance sheet has become fiscally relevant.*

The fact that the SNB has gained fiscal relevance is uncomfortable and has inevitably put it in the political limelight. Our previous [report](#) argues that, over time, the SNB should distribute all its profits, rather than accumulating ever larger assets. Various interest groups feel that more should be distributed, and in their direction. More generally, large wealth whets appetites. The large balance sheet of the SNB is a potential threat to its independence, which is a highly valuable institutional feature.

Indeed, the SNB's mandate is to maintain price stability and to support financial stability, not to accumulate wealth and make profits. The SNB should not have to worry about making profits. It should also not have to worry about the possibility of making substantial losses. Yet, a large loss could wipe out the bank's equity. While it cannot go bankrupt, the SNB may fear the impact on its reputation and its independence.

Furthermore, it is not healthy if fear of losses were to influence the SNB's exchange rate policy. This may seem farfetched but in listing the reasons for abandoning the floor in January 2015, Chairman Thomas Jordan stated:

"An expansion of the balance sheet would have severely impaired the SNB's ability to conduct monetary policy in future. Such a long balance sheet would have made further monetary policy measures substantially harder." (SNB monetary policy after the discontinuation of the minimum exchange rate, [Statement](#) to the 107th Ordinary General Meeting of Shareholders of the Swiss National Bank, April 24, 2015, emphasis added.)

Clearly, the Chairman perceives the large balance sheet as constraining monetary policy.

Indeed, it is essential that the SNB's exchange rate policy is not constrained by its large holdings of foreign currency assets. The SNB's credibility hinges on it being able to act without any concern about the size of its foreign currency assets or possible losses. This is a key justification for transferring a substantial part of these assets to a SWF.

In addition, the SNB is regularly asked by various groups to include moral and environmental considerations in its choice of investments. As a result of such demands, the SNB has developed a set of principles, but they are bound to eventually become outdated, and the resulting

controversies could damage its reputation and independence. Such considerations could much more naturally be assigned to a SWF. The Fund's owner would formulate constraints on its investments, without the risk of damaging the SNB's independence.

Finding 2. *The fiscal relevance of the SNB implies that its profit and asset allocation become a political issue, and that the SNB may worry about possible large losses. This is a distraction from monetary policy.*

For these reasons, the SNB itself should have an interest in ceasing to be fiscally relevant so that it can focus on its mandate.

3. The Role of a Sovereign Wealth Fund

3.1 Institutional logic

Because of its vast balance sheet, the SNB is forced to act as an asset manager. However, this task is difficult to reconcile with its mandate. Managing wealth is quite a different activity than managing monetary and financial stability. Combining these two tasks of such magnitude in one institution is also problematic from a managerial and general political perspective.

Finding 3. *Ensuring monetary stability and contributing to financial stability are full-time jobs. So is managing a large portfolio. Combining these tasks in one institution risks leading to managerial overload. The current setup also concentrates an enormous power in one institution, which may not be desirable.*

3.2 The mandate of a SWF

The SWF would manage the wealth owned by the Swiss people. It is for the government and parliament to formulate an asset management mandate for the SWF and oversee how the mandate is executed. They may call upon experts for advice when providing the SWF with instructions, including about the choice of risk-return trade-off, and in its regular evaluation of its performance.

The asset managers would be required to maximize risk-adjusted returns. The SWF itself should be run by financial professionals, who enjoy broad and formally guaranteed independence. Its operations and its results would be transparent, which is more easily achieved when they are unrelated to foreign exchange policy. The Board should develop a strategy, which should be made public, and possibly subject to political

constraints such as limits on assets that support carbon emissions or other preferences.

Some commentators furthermore argue, rightly or wrongly, that the fund can also be used to pursue other strategic goals of the country, such as securing energy sources or combating international political isolation of the country by making strategic investments.

3.3 Higher profitability

Central banks typically prefer to have their foreign reserves available on short notice in case they need to buy the domestic currency in the foreign exchange market. They prefer highly liquid assets, which can be sold in periods of financial stress without capital losses. This is why, historically, they have mostly held short-term treasury bills. While short-term safe assets are appropriate from a monetary policy perspective, they yield very low and at times even negative returns, they are therefore a poor investment for Swiss wealth.

In contrast, SWFs hold their assets for the long run, for future generations. They hold assets that earn higher returns but may fall in value in adverse market conditions. Their long investment horizons make them better able than central banks to harvest premiums on various risk factors, such as illiquidity. Since the wealth held by the SNB is here to stay, the SNB should adopt an investment strategy similar to SWFs.

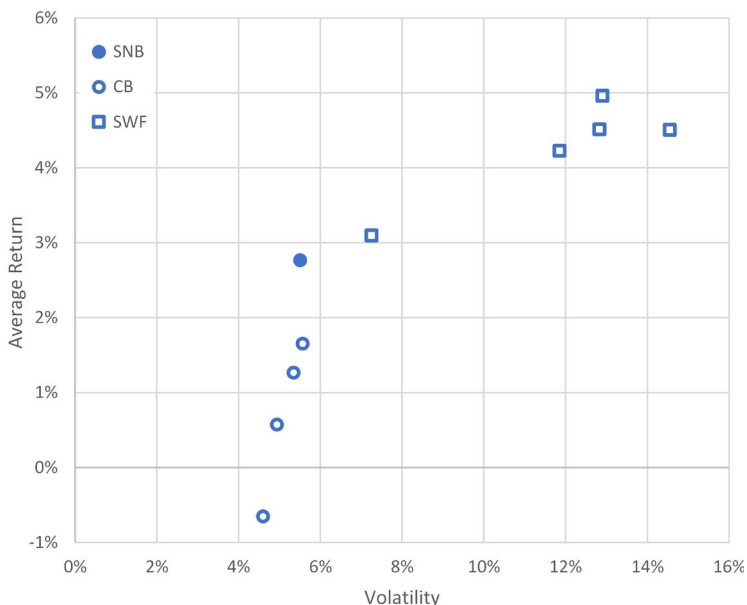


Figure 2 Risk-return tradeoff (estimates using data from a major international financial institution, in CHF).

To understand the effect of different investment strategies, Figure 2 shows some indicative calculations using data from a major international financial institution. It presents average returns and volatility (measured by the standard deviation of returns) for four assumed central bank (CB) portfolios, all converted in Swiss francs. These portfolios and their returns reflect weights and returns observed over the 15-year period from 2006 to 2020.

All four central bank strategies maintain volatility within a narrow range, yet the returns grow strongly with volatility. The most conservative and lowest yielding of these CB portfolios involve an even split between cash and short-term government bonds; the least conservative involves a 15% allocation to global equities, a 3% allocation to emerging markets debt, 10% in cash and 50% in short-term debt.

We also include the returns on the SNB's portfolio, using data from the SNB's website. The SNB's portfolio has become less conservative over time as its balance sheet has ballooned and its allocation to equities has increased from zero to 20%. As a result, its returns are significantly higher than those of the four stylized CB portfolios. Yet, the SNB returns were plainly below those from five SWFs over the same 2006 to 2020 period.

The figure shows that these SWF portfolios earn higher, but also more variable, returns than the CB portfolios. The SWFs achieve these returns by holding a broader range of assets than central banks typically do. They hold mostly equities — e.g., the Norwegian SWF holds 70% of its assets in equities while SNB holds 20% — but also real estate, private equity, hedge funds, infrastructure, commodities etc.

While the graph suggests that the SNB earns about 2% per year less than the average SWF, investment returns vary over time and the SNB's portfolio evolved during the period considered. The graph should therefore not be overinterpreted. The lesson we draw is that higher returns can be reaped by SWFs that use a broader investment universe and assume more risk than central banks typically do, although precisely how much higher those returns are is debatable.

To sum up, even though the SNB manages its reserves in a professional manner and achieves good returns, its mandate restricts its actions. The result is a significant opportunity cost for the country. The SNB's mandate is not appropriate for managing such large assets, and more could be achieved by assigning this task to an entity with a more appropriate risk-return mandate.

Finding 4. *The higher average returns that a SWF is likely to generate an opportunity for Switzerland. It can use the proceeds from its accumulated wealth to finance government operations which are now funded by distortionary taxation, and to pursue strategic political goals. At the same time, a SWF would free the SNB from fiscal considerations.*

4. How to set up a SWF

4.1 Ownership and asset swap

With foreign currency investments representing the bulk of its assets, the SNB cannot just make a “gift” to the SWF to be created. It would have to reduce an equivalent amount of its liabilities, which is impossible. The natural solution is to swap (part of) its foreign investments against a liability of the SWF.

A straightforward way to do this is to have the SWF issue bonds denominated in CHF, which are given to the SNB in exchange for some of its foreign assets. This achieves the following goals:

- The exchange risk on the balance sheet of the SNB is much reduced and moved from the SNB to the SWF. The SWF-bonds are not tradeable and are simply held by the SNB.
- The SWF receives foreign currency assets which it then invests according to the return and risk objective defined by its mandate.

One reason for adopting a SWF is to seek higher returns, which normally comes along with more risk-taking. In addition, because the liabilities of the SWF are in CHF and its assets are in foreign currency, the SWF bears considerable risk. A well-managed fund is likely to ride through normal fluctuations.

Different solutions for a loss-absorption capacity exist. The SWF might be required to build up equity over time, just as the SNB gradually did, by not distributing all its income for a while. Alternatively, the SWF could

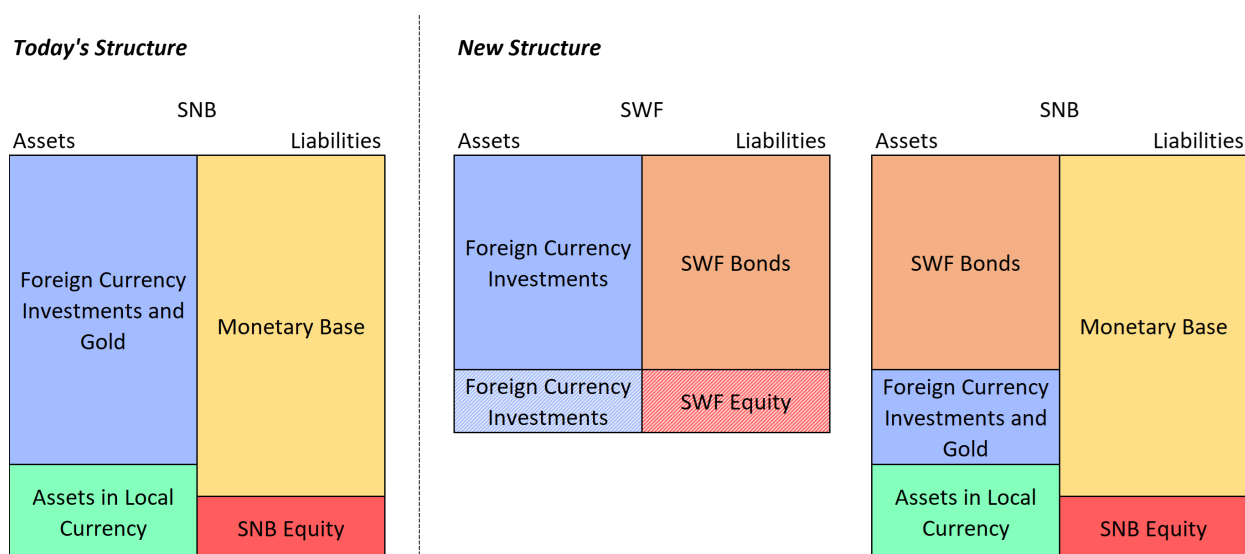


Figure 3 Balance sheet before and after creation of the SWF.

receive equity from the Confederation (in francs or foreign currency, a technical issue that must be evaluated). The state, as the equity owner, ultimately bears the risk and earns all the profit the SWF makes. The SWF should aim at distributing all profits, possibly subject to some smoothing if this is what the Confederation and cantons wish. Figure 3 depicts the structure of the balance sheets.

The alternative is for the Confederation to guarantee the SWF. Without its own stock of foreign currency reserves, the Confederation would have to borrow the required amounts in case of large losses. Given the existing debt level, this is unlikely to lead to difficulties but repeated large losses could eventually become problematic.

However, while losses are always possible, proper wealth management should ensure that they are rare. The SNB's experience shows that substantial losses are the result of franc appreciation, which the bank is obviously intent of keeping in check.

4.2 Interest payments on SWF bonds?

The SNB would lose much of its income stream because it would now be received by the SWF. Would this loss of income be problematic for the SNB? Its operating costs are currently about 400 million CHF. In the future, when interest rates become significantly positive again, the SNB might want to pay interest on reserves held by banks as many other central banks do. Thus, the SNB needs to be ensured of adequate earnings.

This potential problem can be resolved by making the interest paid on the SWF bonds variable and related to the market interest rate. This guarantees that the SNB has always sufficient earnings to pay interest on reserves if this should become necessary.

4.3 Are the SWF bonds public debt?

Since the SWF is part of the public sector, its debt to the SNB may be classified as new gross public debt. Depending on the size of the transfer, the gross public debt could double or triple. This debt, however, will be owed to the SNB, which is also a public agency, so there would be no increase in the net public debt. As Figure 3 shows, this merely involves accounting for transfers between various branches of government. From an economic viewpoint, the amount of debt is unchanged.

However, the distinction between gross and net debt may be too subtle for some observers. This is especially so given that the public debt figures

usually quoted in the media are gross, simply because it is often difficult to measure net indebtedness. Not in this case. The bonds issued by the Confederation to the public are easy to distinguish from bonds issued by the SWF to the SNB. Since the SWF bonds are not tradeable, they do not show up in the marketplace. The risk of SWF bonds being mistaken for public debt may not be that great after all.

4.4 How large assets should be transferred to a SWF?

The question of how large the SWF should be is not simple. Since the SWF is likely to achieve higher returns and relieve the SNB from political pressures, transferring a large part of its portfolio is best. However, the SNB must retain enough foreign investments to be able to conduct foreign exchange market interventions if a need arises. That would only happen if the SNB had to support the franc in the foreign exchange market. Except for brief and limited episodes, this has not been happening in decades. Nevertheless, even if it is unlikely to need them, the SNB should retain substantial foreign currency investments as a matter of precaution.

Two strategies are possible:

1. The SNB retains a limited amount of foreign currency investments, sufficient to deal with most plausible risks. The SNB's foreign currency investments are worth CHF 957 billion CHF at the end of August 2021. As an example, the SNB could retain 100 billion CHF (determining a minimal amount requires much more analysis). Thus, about 850 billion CHF could be transferred to the SWF. This would establish the Swiss SWF among the largest in the world, together with the Norwegian Government Pension Fund and the China Investment Corporation.
2. Alternatively, the SWF can be built up progressively over time, starting from a small transfer of, say, 100 to 200 bn CHF.

If the SNB continues to intervene to limit the franc appreciation, it will accumulate further foreign currency investments. Unless it needs more foreign currency because the risk of a franc depreciation has increased, all further acquisitions should be transferred to the SWF. In the opposite case of a large need to intervene in support of the franc, an agreement can specify that the SWF must return any amount requested by the SNB (with sufficient forward notice to allow the SWF to liquidate illiquid investments, if needed).

4.5 No interference with monetary policy

Since the global financial crisis, the SNB conducts monetary policy through foreign exchange interventions. Controlling the value of the CHF is its most important policy objective. It is vital that it can continue to do so, even if the foreign currency investments are under management by the SWF.

For this reason, the SWF should be prohibited from selling any part of its holdings against francs,. This rule also applies to any income that it receives in foreign currency. Likewise, the SWF should be barred from hedging the currency risk that it faces, as this would amount to undoing the foreign exchange policy of the SNB. This constraint is necessary to guarantee that the SWF does not affect the SNB's freedom to pursue monetary policy as it sees fit.

4.6 Profit distribution

The SWF should distribute all its profits to the Confederation and the cantons, although it could smooth the amounts over time. The process itself raises an important issue. Since it deals only in foreign currencies, the SWF will only be able to serve profits in foreign currencies. These profits, however, will be used by the Confederation and the cantons in Swiss francs. Converting large amounts of foreign currency into Swiss Francs could appreciate the exchange rate and thus interfere with monetary policy.

This is the same issue that arises with profit distribution of the SNB today. Its profits are also mainly in foreign currency, yet it distributes Swiss francs to the Finance Department. The same issue is faced by the Norwegian SWF.

The Norwegian SWF informs the market continuously and in advance of the foreign exchange operations it will undertake. In its experience, this procedure has been successful in avoiding volatility in the foreign exchange market.

The SNB, in contrast, does not need to use the foreign exchange market when distributing profit. It creates Swiss francs in the amount that will be distributed and credits this to the account of the Confederation. This enlarges the monetary base. Note that the profit remains on the asset side as new foreign currency investments and the balance sheet is simply expanded.

This procedure can be adapted to the situation with a separate SWF. The SWF would neutralize the profit it distributes by creating new SWF

bonds. These bonds are given to the SNB, who then creates Swiss francs by an equal amount which it credits to the account of the Confederation.

No interaction with the foreign exchange market is necessary, but the monetary base is increased, as is the case now. If the SNB wants to sterilize the increase of the monetary base, it can do that with an open market operation.

5. Three ways to go

In addition to achieving higher returns, a SWF will allow the SNB to focus on its mandate and to avoid becoming enmeshed in controversies about its balance sheet. The controversies are then likely to shift to the SWF. Since the wealth belongs to the Swiss people, in a democracy it is for its elected representatives to decide what to do with it. However, some commentators worry that a large part of the wealth could be misused if politicians were to use the funds for populist spending to gain votes. The independence of the SNB therefore makes it attractive to let it manage these funds.

These political issues go beyond our economic considerations. We therefore do not offer a firm recommendation and only sketch three choices.

Choice #1. *Create a separate SWF as discussed above.*

The SWF requires a similar level of independence as the one enjoyed by the SNB today. The minimum requirement for this would be a mandate formulated in the constitution. It is important to nurture a public deliberation about these issues and create a wide consensus in the public that making a politically independent SWF is indeed the best way to go.

Choice #2. *Create a SWF with a separate mandate under the roof of the SNB.*

The SWF would be a branch of the SNB but have a mandate separate from the monetary policy branch of the SNB. This is the solution adopted in Norway, as explained in Box 2. The advantage of this construction is that the very high level of political independence of the SNB can be leveraged to also protect the SWF from political influence. The most serious concern is that the conduct of monetary policy and asset management are two very different activities, which each require full time engagement of the management and different professional skills. It is also unclear if in this setup the monetary policy branch of the SNB could be insulated from being held responsible for losses incurred by the SWF branch of the SNB.

Choice #3. *Do not change anything.*

This leaves a considerable amount of money on the table. The public finance opportunities that Switzerland could enjoy are not fully realized. In addition, the fiscal relevance of the SNB remains unaddressed and continues to distract management from its important mandate.

This corresponds also to our order of preference.

BOX 2 The Norwegian Sovereign Wealth Fund

Norway's oil fund was created to save for future generations the earnings from exports of oil and gas expected to last for a couple of generations. It started to operate in 1996 as a new department of the central bank, Norges Bank. The governance of the SWF is spelled out by a law passed in parliament. Three aspects of the legal act governing the Fund are of particular interest. First, the ultimate owner of the assets of the fund is the State. Second, the fund should seek the highest possible return at an acceptable level of risk. (The SNB's Investment Policy Guidelines states that "investment decisions are subject to the primacy of monetary policy" and that "a high degree of liquidity is required.") Third, the Fund shall be invested outside Norway and in foreign currency.

In practice, the Ministry of Finance has overall responsibility for the Fund, subject to annual approval by the Parliament. It issues guidelines for the management of the Fund and supervises its activities. Norges Bank is responsible for managing the fund through the Norges Bank Investment Management, whose CEO reports to its own Board. The Chair and Vice-Chair of Norges Bank are Chair and Vice-Chair of the Board. There are discussions about moving the SWF out of the central bank.

The fund was set up to grow with oil and gas revenues. The income is denominated partly in NOK (revenues from domestic oil and gas sales) and partly in foreign currencies (exports). Due to the gradual exhaustion of oil and gas reserves, by now most of the income originates from investment returns.

Each year, the government prepares a budget with oil revenues excluded. The SWF then transfers to the State its profits according to a "fiscal rule": the fund's contribution equals the expected real return on the assets, which is assumed to be 3 percent. Thus, spending from the fund does not depend on the annual performance of the fund. To achieve such high returns, the fund has 73% of its assets invested in equities, 25% invested bonds and 2% in property, all in foreign currencies. In 2021 it made a first investment in renewable energy infrastructure. The fund can invest up to 7% in real estate and 2% in renewable energy infrastructure.

Initially, the fund used its NOK income to make profit transfers to the government. Since the end of 2014, the transfers have exceeded the revenues in NOK, leading to a need to sell foreign currency revenue to finance the deficit. These transactions are planned and smoothed over the year and pre-announced so that market operators know the amounts to be converted. The profit transfers have therefore not complicated Norges Bank's monetary and exchange rate policies.

EXECUTIVE SUMMARY

The SNB holds a trillion francs worth of foreign currency assets on its balance sheet. These assets have been accumulated through a decade of interventions on the foreign exchange markets. The only reason why the SNB would reduce these amounts would be foreign exchange market interventions in the opposite direction, to prevent the franc from depreciating. This is most unlikely to happen, the Swiss franc's status as safe haven is not about to dim in the years to come. The earnings potential from these assets is considerable, and could be used to relieve the burden on taxpayers.

Meanwhile, the SNB is forced to act as an asset manager. This task is difficult to reconcile with its monetary policy mandate which requires a focus on liquidity, at the expense of returns. At any rate, managing monetary policy is a task that requires the full attention of management; managing one trillion francs is not a side job. One may also wonder whether these two important tasks in the hands of one institution represents a concentration of power. In the end, the SNB's large balance sheet is a distraction from monetary policy.

The balance sheet may also constrain the conduct of monetary policy, which is largely conducted through foreign exchange market interventions. The SNB may be unduly concerned by the sheer size of its foreign currency asset holdings and by losses resulting from exchange rate movements. The mere perception that they matter could impair its credibility.

It makes sense, therefore, to start (or restart) a discussion about separating monetary policy and asset management. Does it make sense to transfer the SNB's foreign currency assets to a separate Sovereign Wealth Fund (SWF)? If so, a framework must be established to ensure that the SWF does not interfere with the SNB's monetary policy objective.

Exchange rate management has been the focus of Swiss monetary policy since 2008. The SNB should be the only public institution present in this market. For this reason, a SWF should only be permitted to hold foreign currency assets and not to convert them into Swiss francs. It should also not be allowed to hedge currency risk with derivatives. This ensures that the SWF's investment activities do not conflict with, the SNB's foreign exchange policy.

A SWF would be a public institution dedicated to the management of wealth under a transparent mandate set by the government and parliament. It should be as independent as the SNB and fully accountable for its actions. Managed by professional asset managers its mandate would be to deliver the best returns given the risks it is allowed to take. The mandate might also contain restrictions on the investment universe, as well as formulate strategic objectives for Switzerland (for example, securing energy sources or strategic cooperation in the technology sector).

A SWF can be created through an asset swap: The SNB transfers a large part of its foreign currency assets in exchange for bonds denominated in francs issued by the fund. This transfers the risk of loss due to appreciation from the SNB to the SWF, thus freeing the SNB from concerns unrelated to monetary policy. The transfer would also imply that the accumulated wealth is not held at the SNB, thus removing it from political and social pressure. At the same time, the SWF can invest more profitably than the SNB's mandate allows it to do.

The bonds issued by the SWF would not be tradeable, only held by the SNB. These bonds do not add to the net public debt of Switzerland since they are entirely backed by the foreign currency assets.

The SWF bears considerable exchange rate risk. Therefore, it would need adequate loss absorbing capacity. This capacity could consist in capital subscribed by the Confederation, or it can be built up through retaining earnings in the early years of its creation, or a combination of both.

The SWF should distribute all its profits, although smoothing over time can be applied if that is the wish of the government. Since the earnings will be in foreign currencies and the use of these profits by the Confederation and the cantons will be in francs, a procedure is needed to prevent outright transactions on the exchange market. This, however, is not a new issue; the same need currently arises when the SNB distributes its profits. Today's procedure can be adapted to distribute profits of the SWF.

We see three options for dealing with the wealth held at the SNB:

1. Creation of an independent SWF owned by the Confederation.
2. Creation a SWF with a separate mandate, but within the SNB.
3. Maintain the current situation unchanged.

This corresponds also our order of preference.

It is time for a public, open-minded discussion.

KURZFASSUNG

Die SNB hält in ihrer Bilanz Fremdwährungsreserven im Wert von einer Billion Franken. Diese Guthaben wurden durch ein Jahrzehnt von Interventionen an den Devisenmärkten angehäuft. Diese Reserven könnten nur reduzierte werden, wenn die SNB Interventionen in die umgekehrte Richtung vornehmen würde um eine Abwertung des Frankens zu verhindern. Dies ist allerdings sehr unwahrscheinlich, weil der Status des Schweizer Frankens als sicherer Hafen ungebrochen ist. Das Ertragspotenzial dieses Vermögens ist beträchtlich und könnte zur Entlastung der Steuerzahler genutzt werden.

Zur Zeit ist die SNB allerdings gezwungen, als Vermögensverwalterin zu agieren. Diese Aufgabe lässt sich nur schwer mit ihrem geldpolitischen Mandat vereinbaren. Dieses Mandat impliziert, dass die SNB der Liquidität der Anlagen auf Kosten der Rendite Vorrang gibt. Auf jeden Fall ist die Verwaltung der Geldpolitik eine Aufgabe, die die volle Aufmerksamkeit des Managements erfordert; die Verwaltung einer Billion Franken ist kein Nebenjob. Man kann sich auch fragen, ob diese beiden wichtigen Aufgaben in den Händen einer Institution eine problematische Machtkonzentration darstellt. Die grosse Bilanz lenkt die SNB von ihrem primären Mandat, der Geldpolitik, ab.

Die Bilanz kann auch die Geldpolitik beeinträchtigen, die heute weitgehend über Devisenmarktinterventionen erfolgt. Die SNB könnte durch den schieren Umfang ihrer Fremdwährungsbestände und durch Verluste aufgrund von Wechselkursschwankungen unter Druck geraten und deshalb übermässig beunruhigt sein. Allein der Eindruck, dass dies von Bedeutung sein könnte, kann ihre Glaubwürdigkeit bereits beeinträchtigen.

Es ist daher sinnvoll, über die Trennung von Geldpolitik und Vermögensverwaltung (erneut) zu diskutieren. Ist es sinnvoll, die Fremdwährungsreserven der SNB in einen separaten Staatsfonds (SWF) einzubringen? Falls ja, dann muss ein Rahmen geschaffen werden, der sicherstellt, dass der Staatsfonds die geldpolitische Autonomie der SNB nicht beeinträchtigt.

Das Wechselkursmanagement steht seit 2008 im Zentrum der Schweizer Geldpolitik. Die SNB sollte die einzige öffentliche Institution sein, die auf diesem Markt präsent ist. Aus diesem Grund sollte ein Staatsfonds nur Fremdwährungsguthaben halten dürfen und diese nicht in Schweizer Franken konvertieren dürfen. Es sollte ihm auch nicht erlaubt sein, das Währungsrisiko mit Derivaten abzusichern. Damit wird sichergestellt, dass die Anlagetätigkeit des Staatsfonds nicht mit der Devisenpolitik der SNB kollidiert.

Ein Staatsfonds wäre eine öffentliche Institution, welche sich der Verwaltung von Vermögenswerten im Rahmen eines transparenten Mandats, das von der Regierung und dem Parlament festgelegt wird, widmet. Er sollte ebenso unabhängig wie die SNB und für seine Handlungen voll rechenschaftspflichtig sein. Er würde von professionellen Vermögensverwaltern verwaltet und hätte den Auftrag, gegeben der Risiken, die er eingehen darf, die besten Erträge zu erzielen. Das Mandat könnte auch Beschränkungen für das Anlageuniversum enthalten sowie strategische Ziele für die Schweiz formulieren (beispielsweise zur Sicherung von Energiequellen oder der Finanzierung strategischer Zusammenarbeit im Technologiesektor).

Ein Staatsfonds kann durch einen Tausch von Vermögenswerten geschaffen werden: Die SNB überträgt einen Grossteil ihrer Fremdwährungsguthaben im Tausch gegen auf Franken lautende Anleihen des Fonds. Damit wird das Verlustrisiko aufgrund von Aufwertungen von der SNB auf den Staatsfonds übertragen, was die SNB von Bedenken befreit, die keinen

Zusammenhang mit der Geldpolitik haben. Die Übertragung würde bedeuten, dass das angehäufte Vermögen nicht bei der SNB gehalten wird, was sie dem politischen und sozialen Druck entzieht. Gleichzeitig kann der Staatsfonds rentabler investieren, als es das Mandat der SNB zulässt.

Die vom SWF ausgegebenen Anleihen wären nicht handelbar, sondern würden nur von der SNB gehalten. Diese Anleihen tragen nicht zur Nettoverschuldung der Schweiz bei, da sie vollständig durch die Fremdwährungsreserven gedeckt sind.

Der SWF trägt ein erhebliches Wechselkursrisiko. Daher benötigt er eine angemessene Verlustabsorptionskapazität. Diese Kapazität könnte in vom Bund gezeichnetem Kapital bestehen oder durch Einbehaltung von Gewinnen in den ersten Jahren seiner Gründung oder durch eine Kombination aus beidem aufgebaut werden.

Der Staatsfonds sollte seine gesamten Gewinne ausschütten. Eine Glättung über mehrere Jahre ist möglich, wenn dies von der Regierung gewünscht wird. Da die Erträge in Fremdwährungen anfallen werden und die Verwendung dieser Gewinne durch Bund und Kantone in Franken erfolgt, ist ein Verfahren erforderlich, das direkte Transaktionen auf dem Devisenmarkt verhindert. Diese Problematik ist jedoch nicht neu, sondern stellt sich bereits heute bei der Gewinnausschüttung der SNB. Das heutige Verfahren kann für die Gewinnausschüttung des Staatsfonds angepasst werden.

Wir sehen drei Möglichkeiten, wie mit dem Vermögen der SNB umgegangen werden kann:

1. Schaffung eines unabhängigen Staatsfonds im Besitz des Bundes.
2. Schaffung eines Staatsfonds mit einem separaten Mandat, aber innerhalb der SNB.
3. Unveränderte Beibehaltung der gegenwärtigen Situation.

Dies entspricht auch unserer Präferenzordnung.

Eine öffentliche, ergebnisoffene Diskussion zur Klärung dieser Wahl ist notwendig.

RÉSUMÉ EXÉCUTIF

La BNS détient des montants exceptionnels d'actifs en devises étrangères dans son bilan, le résultat d'une décennie d'interventions sur les marchés des changes destinées à empêcher une appréciation excessive du franc. Le bilan ne sera réduit que si la BNS doit intervenir en sens inverse, pour empêcher une dépréciation excessive du franc. Mais comme le statut de monnaie refuge du franc n'est pas près d'être mis en doute, il est hautement improbable que ce scénario se réalise dans les années à venir. Les investissements en devises étrangères constituent donc une richesse permanente considérable puisque sa valeur dépasse le PIB de la Suisse. Cette richesse peut produire des revenus importants, qui seraient disponibles pour alléger la charge des contribuables.

La BNS est contrainte d'agir comme un gestionnaire d'actifs. Cette tâche est difficile à concilier avec son mandat de politique monétaire qui exige de mettre l'accent sur la liquidité des investissements, au détriment de leurs rendements. En tout état de cause, la gestion de la politique monétaire est une tâche qui requiert toute l'attention de la direction et gérer un trillion de francs ne peut constituer une préoccupation secondaire. On peut aussi se demander si deux tâches d'une telle importance réunies entre les mains d'une seule institution ne représentent pas une concentration de pouvoir. En fin de compte, les investissements étrangers risquent fort d'être pour la BNS une distraction par rapport à la politique monétaire.

La taille du bilan peut également entraver la conduite de la politique monétaire, qui prend essentiellement la forme d'interventions sur le marché des changes. La BNS peut être indûment préoccupée par l'ampleur de ses avoirs en devises étrangères et par le risque de pertes provoquées par des fluctuations du taux de change. La simple perception de l'importance de ces considérations pourrait nuire à sa crédibilité.

Pour ces raisons, il est judicieux de séparer la politique monétaire et la gestion des actifs accumulés. Cette situation justifie une discussion sur l'opportunité de transférer les réserves monétaires de la BNS à un fonds souverain distinct. Si tel est le cas, un cadre doit être établi pour garantir que le fonds souverain n'entre pas en conflit avec l'objectif de politique monétaire de la BNS.

La gestion du taux de change est au centre de la politique monétaire suisse depuis 2008. La BNS doit donc absolument demeurer la seule institution publique présente sur ce marché. C'est pourquoi un fonds souverain ne devrait être autorisé qu'à détenir des devises étrangères sans pouvoir les convertir en francs suisses. Il ne devrait pas non plus être autorisé à couvrir le risque de change par des produits dérivés. Ces conditions suffisent à ses autres activités n'entrent pas en conflit avec la politique de change de la BNS.

Un fonds souverain serait une institution publique consacrée à gestion d'un portefeuille en devises étrangères dans le cadre d'un mandat transparent défini par le gouvernement et le parlement. Il devrait être aussi indépendant que la BNS et entièrement responsable de ses actions. Il devrait être géré par des gestionnaires d'actifs professionnels dont la mission serait d'atteindre les meilleurs rendements compte tenu des risques qu'ils seraient autorisés à prendre. Le mandat pourrait également spécifier les types d'investissement autorisés. Il pourrait même demander au fonds souverain d'utiliser ses investissements pour soutenir des objectifs jugés stratégiques pour la Suisse (par exemple, la sécurisation des sources d'énergie ou la coopération stratégique dans le secteur technologique).

Un fonds souverain peut être créé tout simplement par un échange d'actifs : la BNS transfère une grande partie de ses actifs en devises étrangères en échange d'obligations libellées en francs émises par le fonds. De ce fait, le risque de pertes dues à l'appréciation du franc est transféré de la BNS au fonds, ce qui libère la BNS de préoccupations sans rapport avec la politique monétaire. Ce transfert implique également que la richesse accumulée n'est pas détenue par la BNS, ce qui la soustrait à toutes sortes de pressions politiques et sociales. En même temps, le fonds souverain peut investir les réserves monétaires de manière plus rentable que ne le permet le mandat de la BNS.

Les obligations émises par le fonds souverain ne sont pas négociables et sont entièrement détenues par la BNS. Ces obligations n'augmentent pas la dette publique nette de la Suisse puisqu'elles sont entièrement garanties par les actifs en devises.

Comme le fonds souverain est soumis à un risque substantiel, il doit être capable d'absorber des pertes. Cette capacité pourrait consister en un capital souscrit par la Confédération, ou être constituée par la rétention des bénéfices au cours des premières années de sa création, ou une combinaison des deux.

Le fonds souverain devrait distribuer tous ses bénéfices, bien qu'un lissage dans le temps puisse être appliqué s'il est souhaité par le gouvernement. Comme les bénéfices seront en devises étrangères et que l'utilisation de ces bénéfices par la Confédération et les cantons se fera en francs, une procédure est nécessaire pour empêcher les transactions directes sur le marché des changes. Cette question n'est toutefois pas nouvelle ; le même besoin se fait sentir actuellement lorsque la BNS distribue ses bénéfices. La même procédure peut être adoptée.

Nous entrevoyons trois options pour gérer la richesse détenue aujourd'hui par la BNS:

1. Création d'un fonds souverain indépendant appartenant à la Confédération.
2. Création d'un fonds souverain avec un mandat séparé, mais au sein de la BNS.
3. Maintenir la situation actuelle inchangée.

Cela correspond également à notre ordre de préférence.

Il est temps de mener une discussion publique et ouverte.