# TREASURY COMMUNITY OF PRACTICE (TCOP)

**Knowedge event with the Swiss Federal Treasury**

June 24, 2020 Videoconference

Members of the PEMPAL Treasury COP (TCOP) met through videoconference (VC) on June 24, 2020 to learn about functions of the Swiss Federal Treasury (FT) presented by Mr. Adrian Martinez, the Head of the Front Office of the Swiss FT. The meeting was attended by 31 participants from 11 PEMPAL countries (Albania, Belarus, Croatia, Georgia, Kazakhstan, Kosovo, Moldova, North Macedonia, Tajikistan, Turkey and Ukraine), representatives of the Hungarian Treasury and the PEMNA network also joined the session. The meeting was facilitated by the World Bank resource team, including Ms. Elena Nikulina (TCOP Resource Team Leader), Ms. Yelena Slizhevskaya (TCOP Advisor), Ms. Ekaterina Zaleeva, Ms. Galina Kuznetsova (PEMPAL Secretariat), and Mr. Mike Williams (TCOP thematic advisor).

## Summary of discussion

**The videoconference was opened by Mr. Thomas Stauffer, the representive of the Economic Cooperation and Development Division of the Swiss State Secretariat for Economic Affairs (SECO) and a member of the PEMPAL Steering Committee.** Mr. Stauffer welcomed everyone on behalf of the SECO and noted that, though it is not possible for the Cross-COP Leadership Group to meet in Bern in July as planned, he is very happy to see the great interest of the TCOP members in this virtual event. Mr. Stauffer stressed that the peer learning approach of PEMPAL is a real success story, and that the COVID crisis had made the peer learning even more important as a relevant instrument to respond to the crisis.

**Mr. Ilyas Tufan, Deputy Director of the Directorate General of Debt Office, Turkey and the Deputy Chair of the TCOP Executive Committee, welcomed the participants on behalf of TCOP leadership.** He noted that this is the first opportunity to engage with the Swiss colleagues and expressed his hope that other events would follow. Mr. Tufan explained that the main aim of the TCOP is to foster experience and knowledge sharing among its members and that cash management and forecasting is an important topic of interest to the TCOP. Mr. Tufan concluded by expressing the gratitude to the Swiss colleagues for their readiness to share their experience.

**Ms. Elena Nikulina, World Bank Senior Public Sector Specialist and the TCOP Resource Team Leader,** welcomed the participants on behalf of the WB resource team. She noted a high level of interest in the online events (this one being the third since April 2020) and thanked the participants for their keen interest and commitment despite all current challenges. Ms. Nikulina

expressed special thanks to Mr. Stauffer for facilitating this virtual meeting with Swiss colleagues, which opens a series of three meetings during which all three PEMPAL COPs will have a chance to meet with their Swiss peers. She also explained that the functions of the Swiss FT are mainly limited to debt and liquidity management, while the payments function is performed by another unit. Ms. Nikulina noted that this contrasted with the functions of the treasuries in PEMPAL countries and asked participants to keep this point in mind during the questions and answers session.

**Adrian Martinez, the Head of the Front Office of the Swiss FT**, familiarized the participants with the organizational structure and main responsibilities of the FT, its approaches to cash forecasting and management, the role of the FT in the budgeting processes of the federal government, and financial reporting by the FT. The participants learned that the FT is a department within the Federal Finance Administration (FFA) which is part of the Federal Department of Finance (Ministry of Finance). The FT's functions are limited to ensuring permanent solvency of the confederation by raising funds and investing on money and capital markets[1] (see the adjacent slide for more). Contrary to the experience of PEMPAL member countries, the FT does not perform payments functions (except for payments related to T-bills, T-bonds or foreign currency procurements). It was explained that regular expenditure payments of the Swiss Confederation are a function of the Finance and Accounting Department – the unit of the FFA which is also responsible for operation of the public financial management information systems (SAP-based).


Continuing, Mr. Martinez provided an overview of the institutional framework and governance arrangements related to the FT functions, with a special focus on the Asset and Liability Management Committee (ALCO) – the strategic steering and supervisory body of the FT responsible for the risk strategy and internal risk management guidelines, approval of the annual issuance strategy (namely issue volumes and issuance dates), approval of eligible financial instruments, and determination of the economic reference values for the preparation of the budget and financial plan.

Mr. Martinez explained that the main goal of the liquidity management in the Swiss Confederation is to ensure sufficient liquidity to fulfil payment obligations on time and avoid payment bottlenecks with the key target indicator being a minimum liquidity buffer of CHF2 bn. In the last ten years the funding needs of the Swiss Confederation had been rather limited, and the FT focused on bringing down the level of Confederation debt, mostly concentrating its operations in the Swiss capital market. The below slide provides details on the two main funding instruments used by the FT: T-bills (CHF21 bn issued in 2019, total outstanding amount - CHF6

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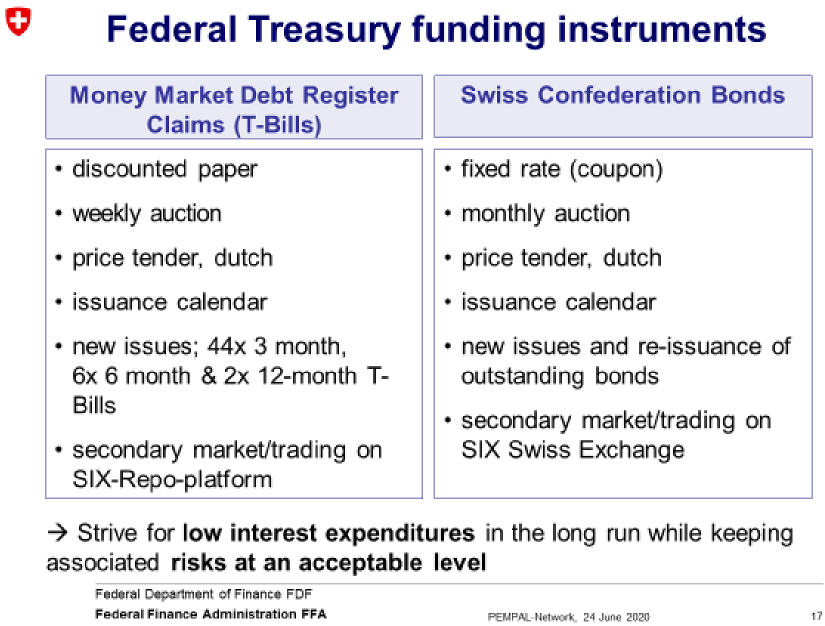
[1] Investments are limited to term deposits or fixed income securities; no other asset classes are allowed

bn) and Swiss Confederation Bonds (CHF2.1 bn issued in 2019, total outstanding amount – CHF61.1).



## Federal Treasury funding instruments

| Money Market Debt Register Claims (T-Bills) | Swiss Confederation Bonds |
|---|---|
| • discounted paper | • fixed rate (coupon) |
| • weekly auction | • monthly auction |
| • price tender, dutch | • price tender, dutch |
| • issuance calendar | • issuance calendar |
| • new issues; 44x 3 month, 6x 6 month & 2x 12-month T-Bills | • new issues and re-issuance of outstanding bonds |
| • secondary market/trading on SIX-Repo-platform | • secondary market/trading on SIX Swiss Exchange |

→ Strive for **low interest expenditures** in the long run while keeping associated **risks at an acceptable level**

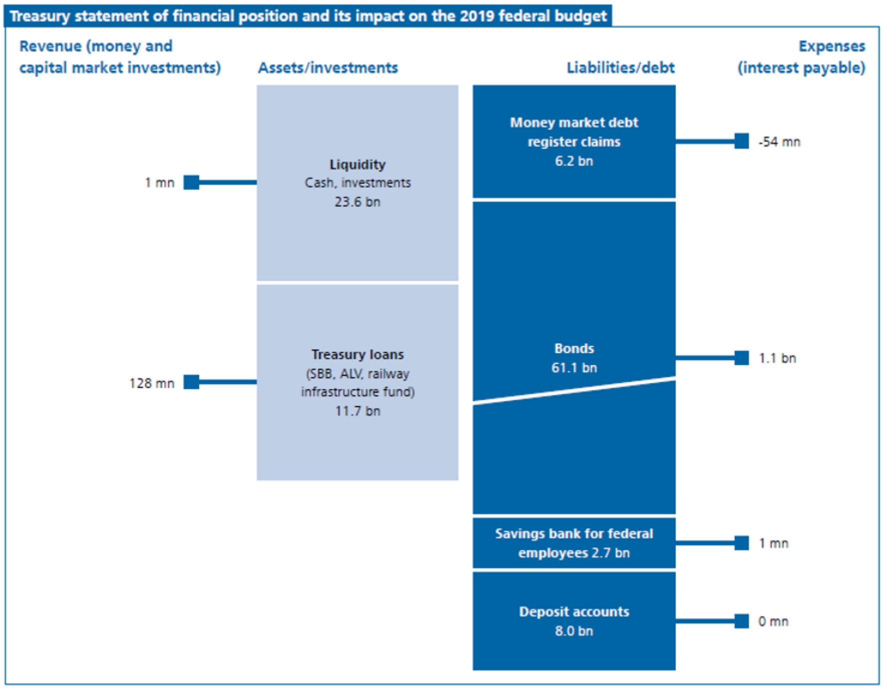
Federal Department of Finance FDF
**Federal Finance Administration FFA** PEMPAL-Network, 24 June 2020 17

It was noted that, apart from the Confederation's bank accounts at the Swiss National Bank (SNB), the tax and custom authorities held revenue accounts at the PostFinance. These accounts are pooled on a daily basis and balances consolidated into a master giro account managed by the FT. This account is swept into the SNB where balances earn zero percent, the only balances that are exempt from the negative rates otherwise applied by the SNB. Rolling daily forecasts of liquidity are prepared and cover the period until the end of the year. The forecast is prepared based on the cash inflows and outflows of the previous three years (which have tended to be stable) adjusted for all the inputs from other units of the FFA.

In relation to the budgeting process it was mentioned that the FT closely cooperates with the Fiscal Policy[2], Expenditure Policy and Finance& Accounting divisions of the FFA. The Treasury Plan, which covers the current year, the upcoming (budget) year and the three following years, is the key planning tool; it includes the main cash inflows and outflows and is the basis for estimates of future funding needs and funds available for debt reduction. The Treasury Plan for the next year is prepared and proposed to ALCO in November, published in December and continuously updated after its approval.

The FT's statement of financial position and its impact on the 2019 federal budget (slide below) illustrates the negative interest rates paid on money market debt. Interest is paid on treasury bonds, but this is an average rate on the portfolio, reflecting legacy bonds in the portfolio that were issued when interest rates were positive. The FT had also accumulated substantial liquidity inflows (with balances at end 2019 ten times the minimum buffer requirement), a result of the negative interest rates giving taxpayers an incentive to pay their taxes in advance. This excess liquidity allowed the Swiss Confederation to finance COVID-19 response measures when the pandemic started.

[2] This division is also represented in ALCO




The last part of the presentation provided an overview of the FT financial reporting policy, which includes a publicly available annual FT Activity Report, as well as financial reporting on the Confederation's account and budget, debt data and an annual issuance calendar (issued in December and updated if needed). Mr Martinez stressed the importance given to transparency in presentations, media enquiries, and maintaining the dialogue with major market participants and investors.

**The question and answer session was interactive and rich. Mr. Levan Todua (Georgia) and Ms. Angela Vasovska (North Macedonia) asked several questions on the design on the Treasury Single Account (TSA) in Switzerland.** Mr. Martinez clarified that the TSA is placed in the SNB, but there are also accounts in the PostFinance bank, which are swept on a daily basis to the TSA. The TSA only covers all central government operations, and no separate accounts exist for specific inflows[3] of government units. The only exception are the accounts of some decentralized units – for example polytechnical schools have their deposit accounts, but the FT can use their balances to finance government expenditures with such withdrawals being regulated by the agreement the FT has with these units.

During his presentation Mr. Martinez mentioned that one of the tasks of the FT is managing **savings deposits of federal government employees. Following a question from Ms. Lyudmila Guryanova (Belarus) he explained the background of such accounts**. In Switzerland large companies used to have internal savings banks through which they would expect to have access to cheaper funding and would also be able to provide better interest rates for employees. At the federal government level there are two reasons for maintaining these deposit accounts: (1) employees' deposits provide a stable basis of funding for the Confederation, and (2) there is a legal requirement for employers to motivate their employees to save, and such savings accounts therefore offer a higher interest rate than a normal

[3] Such as loans, grants or proceeds from extrabudgetary activities of the public sector entities, which is a widespread practice in many of the PEMPAL countries

commercial bank. Employees do not have to open such accounts, but many staff use them for the higher interest rates.

**Mr. Tufan asked a series of questions about the specifics of cash forecasting by the Swiss FT.** Mr. Martinez clarified that they use both a classic top-down approach as well as bottom-up liquidity planning. The latter covers more than 30 flows mainly related to major revenue items (direct federal taxes on income, personal income, VAT, etc) and some expenditures. All these items are planned for the whole year, and the aggregates are compared with the figure from the top-down approach. Any major deviations are additionally investigated.

The FT also receives inputs from the Fiscal Policy Department (FPD), which prepares in-year revenue forecasts and collects revenue and expenditure forecasts from the customs and tax administrations, as well as federal spending units. The FDP forecast reports are integrated with the FT's liquidity planning.  Liquidity planning performance is monitored by the FT internally based on standardized reports.

Mr. Martinez added that the FT has a very accurate forecast for the next 2-3 days, since next day payments are reported in advance by the spending units, large regular payments (such as payments of the pension system) are fixed in laws or in agreements with the institutions, and all irregular payments (e.g. tax refunds) must be communicated to the FT 2-5 days in advance. If the FT does not have sufficient funds it can postpone the payment.

**Ms. Nikulina asked about the tools used to collect information for cash forecasts.** Mr. Martinez explained that such information is usually sent by e-mail. First, the information is incorporated into MS Excel, then the FT transfers it into a liquidity planning module in SAP. All the planning and reporting are done using a centralized SAP database, while the actual analysis is done in MS Excel with the results uploaded into SAP for further reporting.

**The participants from Vietnam were interested to understand the legal basis that determines the size of the liquidity buffer.** Mr. Martinez clarified that the only legal requirement for the Swiss FT is to ensure the solvency of the Confederation, and the size of the buffer is the result of negotiations with the Federal Ministry of Finance. In answer to a further question as to why the Swiss FT does not disclose auction volumes, Mr. Martinez explained that the Confederation had limited funding needs and the Swiss FT did not have a target to achieve each month. This allowed the treasury some flexibility to determine the volume of auctions depending on the market situation. It was also noted that, as a result of the COVID-19 pandemic, there may be a need to increase budget expenditures and hence the borrowing program, the Treasury may therefore start disclosing auction volumes in the future.

**Mr. Tufan and Mr. Williams** noted substantial variations in the liquidity buffer pattern during the year (starting with a low level of buffer at the beginning of the year, but increasing during the year) and were interested in  the reasons behind it, as well as Central Bank's views on the variability of the FT's balances. Mr. Martinez noted that most tax revenues are collected in February-May, while the period from June-July until the end of the year is mostly characterized by net outflows. He stressed that decisions taken in the past to have a high liquidity buffer had been justified in that it allowed pandemic-related expenditures to be managed without paying substantial issuance premiums.

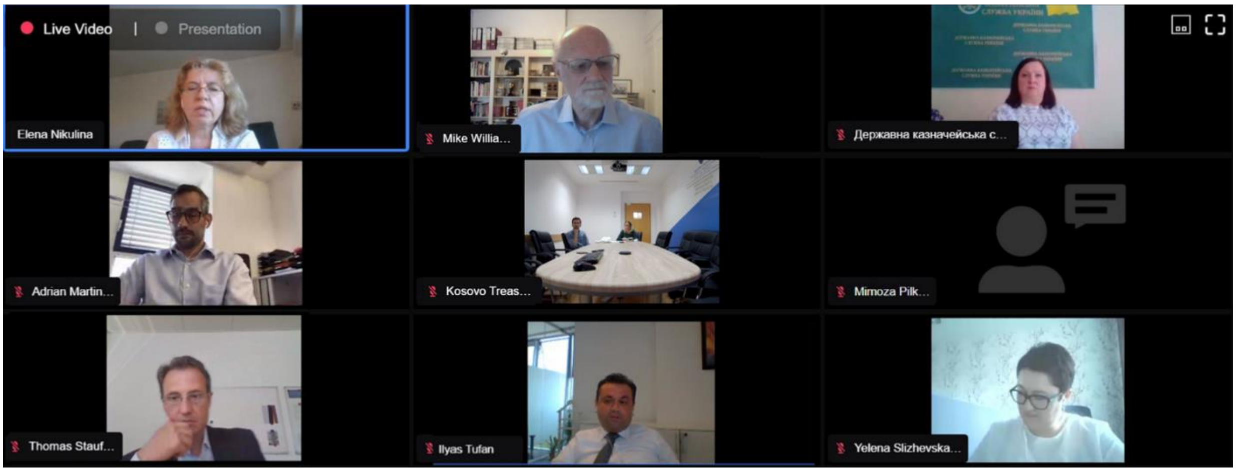
**Ms. Jadranka Groksa Kardum (Croatia)** asked whether the Swiss FT buys foreign currency from commercial banks or from the Central Bank, and how the FT is able to achieve a zero rate on its deposits in the negative market rate environment. Mr. Martinez confirmed that the Treasury buys currency from commercial banks (through Bloomberg) as well as purchases of

EUR and USD from the SNB. The SNB exempted only the FT's balances from the negative interest rates it normally charged on deposits.

**Mr. Martinez briefly described the information systems used by the Swiss FT.** Adaptiv 360 is the core treasury management system. Currently many operations are still done manually, but the Treasury is in the process of introducing a new release of the system which will allow it to automate almost all of them. Another system, APEX, is used for collateral management. The Liquidity Planner, noted earlier, is another SAP solution that communicates with the Treasury system. (Adaptive 360 recognizes treasury operations, including on the money/capital//forex markets, and transfers the information to SAP through the FileZilla accounting application, which records the data; the back office does not need to do the bookings manually). Bloomberg is very important to the Treasury for the market data and foreign currency purchases. The Six Co:Re is the Repo platform of the Swiss Exchange, and this platform is also used for the T-bills and T-bonds auctions.

**Mr. Williams, thanking Mr Martinez, noted that many of the FT's practices were in line with internationally-recognized sound practice.** He highlighted the governance arrangements, with their separation between high-level policy formation and its execution; the integration between the debt and cash management functions; the comprehensive TSA; and the long-horizon cash flow forecasts which, coupled with notice requirements for large payments, allow the FT to closely manage cash flows. At the same time, some of the characteristics are more surprising: as well as the lack of notice about auction volumes, noted above, the deposit facility for employees is arguably unfair competition with the banks; and comprehensive FX hedging by governments is unusual given the transactions costs, and the ability of governments to self-insure. A treasury as sophisticated as the FT might be expected to be managing cash more actively – the variation in its balances at the SNB will add to monetary policy operational challenges. However, Mr. Williams noted that the FT was putting repo functionality in place; and active cash management was certainly complicated by the negative interest rate environment and the SNB's willingness to pay what was currently an above-market interest rate.

**Ms. Elena Nikulina wrapped up the meeting by once again thanking Mr. Martinez** for sharing the experience of the Swiss Federal Treasury, which was very useful not only for the TCOP members involved in cash management in their countries, but also for understanding the evolution of treasuries' roles and functions, which is a separate thematic area of interest for the TCOP. The presentation and discussions during this virtual event illustrated the future path for the treasuries, where the role of cash management becomes more and more important. Ms. Nikulina noted that the interest in today's presentation suggested that there are likely to be more questions and requests for follow up events, for example on the Liquidity Planner and the risks unit within the Treasury, and expressed her hope that this first event starts a series of follow-ups, including with other units of the FFA.


Live Video
Presentation
Elena Nikulina
Mike Willia...
Державна казначейська с...
Adrian Martin...
Kosovo Treas...
Mimoza Pilk...
Thomas Stauf...
Ilyas Tufan
Yelena Slizhevska...