

Press release

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FINMA proposes amendments to the Capital Adequacy Ordinance for cantonal and cooperative banks

FINMA is opening a consultation period to consider amendments to the Capital Adequacy Ordinance (CAO). The proposed amendments relate to the reduction for cantonal banks (Art. 33 sect. 3 CAO) and the additional funding obligation for cooperative banks (Art. 16 sect. 4 and Art. 28 sect. 2 CAO). FINMA is proposing the abolition of both exception rules, thereby requiring institutions to implement an appropriate and higher-quality capital base. The consultation process takes place with the approval of the Federal Finance Administration and will end on 31 August 2009.

The removal of the reduction for cantonal banks and of the ability for cooperative banks to include the additional funding obligations of their members when calculating their capital makes it possible to proceed with a long-planned update of the Capital Adequacy Ordinance. The two provisions are no longer in line with the objectives of supervision and as such are to be removed simultaneously.

Through the above proposal, FINMA aims to bring about a qualitative improvement in the capital base of cantonal and cooperative banks. The amendment will require them to maintain an appropriate capital base themselves rather than relying on financial support from third parties. With regard to competition, it will put an end to the unequal treatment of different types of bank in terms of regulatory capital. In addition, there will henceforth be a uniform set of rules governing the risk capacity, owner relationships and risk liability of the banks concerned. It should be made clear that the amendments to the law pose no threat to the banks concerned, as they are all well capitalised. Accordingly, no negative consequences with regard to lending are expected as a result of the measure. A transitional period of two years will also provide ample time for any necessary adjustments to be implemented before the exception rules are abolished completely on 1 January 2012.

FINMA believes that this amendment to the Capital Adequacy Ordinance represents a necessary and timely step that is in the interests not only of the banks concerned but also of their creditors and the Swiss financial system as a whole. The deadline for submitting comments is 31 August 2009.

Reduction for cantonal banks

The reduction for cantonal banks is a reduction of 12.5% provided for in the Capital Adequacy Ordinance that has to date been granted to the cantonal banks in respect of their regulatory capital.

Additional funding obligation for cooperative banks

The liabilities of a cooperative are in principle covered by its cooperative assets. However, cooperative members can be required to cover balance sheet losses through an additional funding obligation. The Capital Adequacy Ordinance allows 50% of the total per capita additional funding obligation, where this is a specific amount, to be counted as equity capital.

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