

Press release

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FINMA is adapting its regulations on capital adequacy and risk diversification for banks

The financial market crisis clearly demonstrated the shortcomings in the trading business and securitisations of banks and the fragility of the interbank market. Based on new standards of the Basel Committee and the European Union, FINMA intends addressing these defects and is opening a consultation to adapt four circulars that regulate this area. The consultation is being conducted in agreement with the State Secretariat for International Financial Matters (SIF), which, at the same time, is also holding a consultation on amending the Capital Adequacy Ordinance. Both consultations end on 20 August 2010.

FINMA is opening a consultation on the amendment of the following four circulars: FINMA Circ. 08/19 "Credit risks - banks", FINMA Circ. 08/20 "Market risks - banks", FINMA Circ. 08/22 "Capital adequacy disclosure - banks", and FINMA Circ. 08/23 "Risk diversification - banks". With this reform package, the supervisory authority aims at achieving a significant and sustainable improvement in risk-oriented capital adequacy in those areas that generated the largest losses during the financial crisis. On the other hand, the reformatory measures also focus on improving interbank market regulations. The regulations foreseen will particularly affect Swiss big banks in terms of capital adequacy. The tightening in regulations is, however, applicable to all financial institutions and is not a result of the too big to fail debate.

Capital adequacy requirements

The capital adequacy requirements define how much equity capital institutions must at least hold to reasonably cover any loss risks resulting from their business operations. During the financial crisis, the losses incurred in business operations and securitisations significantly exceeded the amount of capital required to cover them, especially in institutions determining their capital adequacy based on a model approach.

Interbank market risk diversification

Major government intervention was necessary worldwide to prevent contagion effects in the wake of bank failure during the financial crisis. Precisely this issue is addressed in the amendments proposed by FINMA by better limiting the volume of authorised interbank claims between institutions. The risk diversification requirements regulate the maximum counterparty risk an institution may take.

In line with the new standards of the Basel Committee and of the EU

The Basel Committee on Banking Supervision already published important cornerstones for improving capital adequacy standards in summer 2009, completing them in June 2010. Practically at the same time, the European Union presented its improved standards on risk diversification, particularly in relation to the interbank market. These efforts to reform the system had been initiated before the financial crisis broke and were then accelerated. Swiss regulations on banks and securities dealers are based on the minimum standards on capital adequacy proposed by the Basel Committee and those issued by the EU on risk diversification. Accordingly, a timely implementation of the improvements to the relevant international minimum standards on Swiss regulations is pertinent. All four revised circulars are to come into force on 1 January 2011.

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