

Press release

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FINMA provides information on stress tests

The Swiss Financial Market Supervisory Authority FINMA is issuing information on the stress tests conducted on the country's two large banks. In its latest analysis, FINMA tested the resistance of these institutions to a global recession, accompanied this time by a deterioration in the finances of European states. Should such a stress event arise, both banks would still have a solid capital base, with tier 1 capital ratios of at least 8%.

The Swiss Financial Market Supervisory Authority FINMA announced last autumn that it had been conducting various stress tests on Swiss banks since 2008. The tests are designed to assess the impact that a sharp deterioration in economic conditions might have on Swiss banks.

In particular, FINMA has since the start of 2009 conducted regular stress tests (analyses of potential loss) on the country's two large banks. Analyses of this kind are a key component of its normal supervisory activities. FINMA requires Credit Suisse and UBS to have sufficient excess capital and liquidity to enable them to absorb unforeseen events at any time. The large banks should therefore have a tier 1 ratio of at least 8% even under such stress scenarios. If this requirement were not met, FINMA would work with the institution in question to consider reducing its risk positions and/or strengthening its capital base and then instruct suitable measures.

The stress scenarios are developed in conjunction with the Swiss National Bank. The latest scenario covers different regions of the world over a two-year period. It assumes a global recession, accompanied by a slump in prices on the financial and real estate markets. Developments in Europe have also been added, with specific and very sharp shocks assumed for some European countries. In view of UBS and Credit Suisse's relatively low exposure to these countries, however, the impact of these particular shocks turns out to be small.

The ECOFIN Council and the Committee of European Banking Supervisors (CEBS) announced the results of a coordinated stress test analysis in the EU today. Although FINMA's approach is similar to CEBS approach in its design, the stress test results are not. Switzerland's specificity in having large banks of great systemic importance, requires the design of particularly severe scenarios.

The latest analysis shows that the two large banks would have a tier 1 ratio of at least 8% under the stress events tested. It should be borne in mind, however, that such stress tests are based on estimates and cannot simulate all possible outcomes.

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