Final Basel III standards – FINMA ordinances

Key Points

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Laupenstrasse 27, 3003 Bern, Phone +41 (0)31 327 91 00, www.finma.ch

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1. The aim of the draft is to implement at FINMA level the Federal Council's capital and disclosure requirements for banks and account-holding securities firms – which themselves, in turn, seek to implement the final Basel III standards published by the Basel Committee on Banking Supervision (BCBS) – in as streamlined, principle-based, and proportionate a way as possible.

2. FINMA was obliged and authorised to implement the legislation with regard to a number of predominantly technical matters. In doing so FINMA pursued the variants that best reflected the principle of proportionality. It also took into account, where pertinent, the repercussions for the future viability and international competitiveness of the Swiss financial centre. The regulations adopted have been designed in a competition- and technology-neutral way. The differentiation of the regulation has been drawn up in keeping with the objectives and risks of the draft, particularly the final Basel III standards.

3. The five new FINMA ordinances encompass the previous regulatory content of the following circulars, taking into account the changes introduced by the final Basel III standards:

   The Ordinance on the Trading Book and Banking Book and Eligible Capital (TBEO-FINMA) encompasses FINMA Circular 2013/1 "Eligible capital – banks" and now regulates in particular technical aspects of the initial allocation of positions to the trading and banking book, the modalities for changes in the allocation – which is possible in exceptional cases – and for the transfer of risks between the two books and the impact of this on the minimum capital requirements.

   The Ordinance on the Leverage Ratio and Operational Risks (LROO-FINMA) encompasses FINMA Circular 2015/3 "Leverage ratio – banks" and parts of FINMA Circular 2008/ 21 "Operational risks – banks" and now regulates in particular technical aspects in the context of the new provisions for the minimum capital requirements for operational risks, such as detailed definitions of income from interest, dividends, services and other financial income, which serve as the assessment basis for the minimum capital requirements. It also sets out which losses are recorded how and aggregated to form a so-called loss component, which is used for loss-dependent adjustment of the minimum capital requirements. In addition, there are minor changes in the calculation of the total exposure, the assessment basis for the leverage ratio.

The Ordinance on Credit Risks (CreO-FINMA) encompasses FINMA Circular 2017/7 “Credit risks – banks” and now regulates in particular the calculation methods for the three new approaches to determining the minimum capital requirements for so-called CVA risks, a revised version of the previous market value method designed for small banks (now called market value approach) for calculating the credit equivalent of derivatives, the more restrictive requirements of the approach based on internal ratings (IRB approach), a lower limit for securities financing transactions with non-banks for reducing leverage in the non-banking sector as well as various technical details, such as the definition of exposures in default, the due diligence review of external ratings, the information to be obtained about foreign covered bonds or the requirements for high-value project finance.

The Ordinance on Market Risks (MarO-FINMA) encompasses FINMA Circular 2008/20 “Market risks – banks” and now regulates in particular the calculation methods for both new approaches to determining the minimum capital requirements for market risks, i.e. the standardised approach and the models approach. There were also minor changes to the calculation method for the current standardised approach, which is now known as the simplified market risk standardised approach.

The Ordinance on the Disclosure of Risks and Capital Requirements and the Principles of Corporate Governance (DisO-FINMA) encompasses FINMA Circular 2016/1 “Disclosure – banks” and regulates in particular new or substantially revised disclosure tables in the context of the new approaches to calculating the minimum capital requirements for CVA risks, market risks and operational risks as well as the so-called output floors for banks with models approaches.

4. With the transfer of the regulatory content of the FINMA circulars mentioned in figure 3 to the new FINMA ordinances, the aforementioned circulars will be repealed, with the exception of FINMA Circular 2008/21 “Operational risks – banks”, whose provisions concerning the qualitative requirements will be revised in a separate process.