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Eidgenössische Bankenkommission
Commission fédérale des banques
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Media release

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Public consultation on Basel II implementation

The Swiss Federal Banking Commission (SFBC) opens a consultation among the public and federal offices on the draft ordinances and circulars implementing the Basel Committee's new minimum requirements into Swiss law, which become effective in a staggered way from January 1, 2007.

September 30, 2005 – The SFBC is entrusted with the implementation of the new Basel capital adequacy framework (Basel II) in Switzerland. Therefore it opens a consultation among the public and federal offices on the new corresponding rules texts. Basel II can be implemented in Swiss law without amending the Banking Act. As is already the case, the Federal Council will make the fundamental decisions and set the standardised risk weights, as well as the capital adequacy rate – unchanged at 8% – via its ordinances. The technical explanations will be issued in the form of four SFBC circulars on credit risk, market risk, operational risk and the disclosure of capital. The new regulation will come into force– in a staggered way – from January 1, 2007. Switzerland will adhere to the timetable foreseen under Basel II which also has been agreed by the European Union (EU).

Basel II defines minimum standards for banking regulation. Based on three pillars, it aims – especially through increased risk sensitivity of the minimum capital requirements – at strengthening the stability of the international financial system and, by harmonising the capital requirements, at improving the international level playing field among banks. Pillar one defines the rules for minimum capital requirements for credit risk, market risk and operational risk (the latter being a new risk factor under Basel II). Pillar two describes principles for the supervisory review process. Finally, pillar three includes standardised disclosure requirements aimed at enhanced market transparency. The actual level of total capital in the financial system is not intended to be changed under Basel II.

Basel II offers a menu of different approaches in order to calculate the regulatory capital requirements for the various types of risk. This differentiation allows banks to choose the most appropriate approaches tailored to their specific needs and to their environment. The simple, standardised approaches are less burdensome in terms of application and calculation. However, their lower degree of specificity leads generally to higher capital requirements than the more sophisticated approaches that are specific to each institution and are subject to approval by the relevant supervisor.

As is the case with all the members of the Basel Committee (apart from the United States, which is likely to adopt Basel II in a slightly different manner) and of the EU/European Economic Area, Switzerland will incorporate the three pillars and all the approaches of the Basel II menu almost unchanged into its regulation. In order to minimise the implementation expenses for the Swiss universal banks, which are mainly active in the Swiss retail market, and in order to exempt internationally active Swiss banks from a double calculation using different capital adequacy standards (not required by the SFBC but nevertheless done for the purpose of international transparency) the new Swiss regulation provides for a Swiss Standardised Approach as well as an International Standardised approach. The latter defines the calculation of the capital requirement for credit risk without any deviations from the Basel framework and follows EU Capital Requirements Directive. By means of appropriately calibrated multipliers, it is intended to prevent capital arbitrage and competitive distortions vis-à-vis the Swiss Standardised Approach. Only a very small number of Swiss banks – among them the two largest ones – will apply the sophisticated approaches, whereas the vast majority of institutions are likely to opt for the simple approaches.

A strong capital base is the cornerstone of the Swiss financial system's stability and is thus essential for customer confidence, which is especially crucial in the asset management and private banking businesses. The level of capital in the Swiss banking industry should therefore be maintained. The Swiss capital adequacy requirements will continue to be well above the international minimum. Under pillar two, the SFBC will maintain its tried-and-tested practice of risk-oriented regulatory supervision. In implementing pillar three, the Swiss regulations are restricted to the minimum required under Basel II. The implementation of Basel II in Switzerland is not intended to endanger the financing of SMEs. Rather, the leniency Basel II expressly provides for in respect of the capital underpinning lending to SMEs will be fully incorporated into the Swiss provisions.

Concurrent with the consultation among the public and the federal offices, a quantitative impact study (QIS-CH) among 77 selected institutions which are representative of the Swiss banking industry will be carried out. QIS-CH will aim at revealing the quantitative impact of the new regulation on Swiss institutions on the one hand, and at defining the final risk weights as well as the level of the multipliers on the other hand.