Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Press release

Date:	7 July 2014
Embargo:	---

FINMA publishes fully revised circular "Liquidity risks - banks"

Starting in 2015, a new, internationally harmonised liquidity standard in line with the Basel III minimum standards for banks will come into effect. Following the revision of the Liquidity Ordinance, the Swiss Federal Department of Finance will introduce the short-term liquidity coverage ratio (LCR) requirement. At the same time, the Swiss Financial Market Supervisory Authority FINMA has adapted Circular 2013/6 "Liquidity - banks", the definitive version of which is being published today.

As required in the Basel III minimum standards, banks must meet stricter capital adequacy requirements, as well as fulfilling internationally harmonised quantitative liquidity requirements. Following implementation of the capital adequacy requirements, the short-term liquidity coverage ratio (LCR) will be introduced in Switzerland in 2015. This thus led the Federal Council to adapt the Liquidity Ordinance and FINMA to adjust Circular 2013/6 "Liquidity - banks". The revised Liquidity Ordinance was adopted by the Federal Council on 25 June 2014, while the FINMA Board of Directors adopted the fully revised circular on 3 July 2014. Both pieces of legislation will come into force on 1 January 2015.

More liquid assets enhance financial security

The short-term liquidity coverage ratio aims at reinforcing the resilience of banks against liquidity shocks. Banks should have a minimum level of high-quality liquid assets as a liquidity reserve. In times of stress, banks must be able to survive a significant stress scenario (cash outflow) lasting for one month. In future, management and supervisors can take appropriate, short-term corrective measures to resolve liquidity problems.

Phased introduction of liquidity coverage ratio

Switzerland will implement the short-term liquidity coverage ratio in line with the Basel III regulations with only some minor exceptions and additional points. With the exception of the systemically important banks, the LCR will be phased in gradually for all banks in Switzerland and will also be disclosed (see separate press release regarding the revision of the circular on "Capital adequacy disclosure – banks". The phased introduction will allow the banks sufficient time to change their business models and build up the required stock of high-quality liquid assets. Systemically important banks must meet the short-term liquidity coverage ratio requirements by 1 January 2015 and will not be granted a transition period.

Consultation respondees welcome introduction of short-term liquidity ratio

In light of the new LCR provisions, the Federal Department of Finance (FDF) ran a consultation on the Liquidity Ordinance from 17 January to 28 March 2013. During the same period, the FINMA consultation on Circular 2013/6 was held. From the comments received, the respondees broadly welcomed this revision. Some respondees proposed adjustments, some of which have been addressed. LCR requirements for foreign currencies have subsequently been relaxed. The eligibility requirements for high quality liquid assets as part of the liquidity buffer have been broadened. Moreover, a number of consultation respondees requested the simplification of certain issues for small and medium-sized banks. FINMA has responded to those points in the circular, for instance, by distinguishing between credit and liquidity facilities and adjusting the requirements for calculating operational deposits and liquidity outflow from derivatives, as well as those on the diversification of high quality liquid assets in the liquidity buffer.

Basel III minimum standard also provides for a structural liquidity ratio

Besides the rules on short-term liquidity coverage ratio, the Basel III framework also sets out other provisions on liquidity. To measure all dimensions of a bank's liquidity profile and promote global consistency in liquidity risk supervision, the net stable funding ratio (NSFR) – a structural measure - is to be introduced by 2018 to supplement the quantitative liquidity standard. Its implementation in the Swiss regulatory regime is planned for 2016 following a separate consultation.

Contact

Tobias Lux, Media Spokesperson, phone +41 (0)31 327 91 71, tobias.lux@finma.ch