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

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FINMA publishes Leverage Ratio and Disclosure circulars

Following the consultation earlier this year, the Swiss Financial Market Supervisory Authority FINMA has issued a new circular on leverage ratio in addition to a revised circular on disclosure. The circular on leverage ratio sets out how total exposure is calculated for leverage ratio, while the changes made to the circular on disclosure include the new requirements for leverage ratio and liquidity coverage ratio.

The Basel III international banking standards define the requirements for leverage ratio. To determine the calculation rules also required in Swiss regulation, FINMA has issued a new circular, FINMA Circular 2015/3 “Leverage ratio - banks”. The Basel III rules also require the disclosure of leverage ratio and liquidity coverage ratio (LCR) as of 2015. These transparency requirements have been included in FINMA Circular 2008/22 "Disclosure - banks". Both circulars underwent a consultation at the same time and will come into force on 1 January 2015.

Consultation welcomed

A large number of respondents participated in the consultation on both circulars. Generally, they approved the introduction of leverage ratio in line with international standards. Certain rules, nonetheless, such as the treatment of special purpose entities or the inclusion of all liquid assets in the total exposure were considered to be either too conservative or too complicated. As regards disclosure of leverage ratio, the amount of detail and the implementation date gave reason for discussion.

Multiplier changed

Under the current capital adequacy regulations, FINMA must apply Basel standards to all banks. This requires that for the Swiss standard approach a multiplier is used to calculate loan equivalents (exposure values) for derivatives in order to achieve equivalence with the Basel minimum standards. FINMA had proposed a multiplier of 2 that was regarded as being too high. It has now been changed to 1.5.

LCR calculation simplified

As regards disclosure of liquidity coverage ratio, FINMA will adopt the principle of materiality proposed by the industry for all non-systemically important banks. Those banks are not obliged to report on all qualitative points under the Basel III rules, but must do so for the points relevant to the bank itself. Moreover, systemically important banks may now use a risk-based approach for the daily LCR calculation. Instead of a daily calculation including all components, volatile components must be updated daily and less volatile components weekly.

Contact

Vinzenz Mathys, Media Spokesperson, phone +41 (0)31 327 19 77, vinzenz.mathys@finma.ch