

Press release

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FINMA opens consultation on “Credit risks – banks” circular

The Swiss Financial Market Supervisory Authority FINMA has aligned its circular “Credit risks – banks” with the revised international Basel III banking standards, enhancing capital requirements for derivatives, central counterparty positions, fund investments and securitisations. The consultation on the circular will run until 15 September 2016.

The Basel Committee has revised the international Basel III banking standards on credit risk. The revision focused on adjusting credit-risk regulations at a technical level and not on adapting the underlying principles. In line with the Federal Council’s strategy for adopting key international financial standards, these adjustments will now be incorporated into Swiss legislation. The Federal Council has therefore amended the Capital Adequacy Ordinance on which the Federal Department of Finance has opened a [hearing](#), while FINMA is also running a consultation on the revised Circular 2008/19 “Credit risks – banks” during the same period. Both the hearing and the consultation will run until 15 September 2016. The Ordinance and the Circular should both come into force on 1 January 2017; the rules on revised capital requirements for securitisations in the banking book, however, are scheduled to be put into effect on 1 January 2018.

Derivatives risk position: standardised approach replaces current exposure method

The current exposure method for determining credit equivalent amounts for derivatives was drawn up in the nineties and is no longer appropriate. It does not adequately reflect the market volatility observed during the financial crisis, nor does it distinguish between secured and unsecured derivative transactions. It will thus be replaced by a standardised approach, the purpose of which is to eliminate the weaknesses identified. This approach also applies to capital requirements for positions vis-à-vis central counterparties, i.e. capital requirements of default funds for which temporary rules had been issued at the beginning of 2013.

Improved capital requirements for fund investments at banks

In addition, capital requirements for fund investments have also been enhanced. For instance, if banks include high-risk positions in funds, insufficient capital requirements for those funds should be prevented. This adjustment is a result of the work performed by the Financial Stability Board to monitor and regulate shadow banking closely.

Securitisations in banking book: capital backing adjusted

New securitisation rules in the banking book will also eliminate shortcomings in current regulation which came to light during the financial crisis: mechanistic reliance on external ratings, excessively low risk weights for highly-rated securitisation exposures or excessively high risk weights for low-rated senior securitisation exposures. The changes will come into force on 1 January 2018.

Simplified rules for small banks

Due to the complexity of some of these rules, FINMA is allowing smaller banks (approximately 90% of all banks operating in Switzerland) to apply a simplified approach to derivative positions and fund investments. International standards apply in full for the remaining approximately 35 banks.

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