

Press release

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FINMA revises large exposure rules for banks

The Swiss Financial Market Supervisory Authority FINMA is updating its circular “Risk diversification – banks” in line with the revised Basel III international banking standards. The new version rectifies weaknesses in the current rules with improved requirements for measuring and controlling large loans. The circular will be subject to a consultation ending on 14 July 2017.

In addition to the rules on capital adequacy and liquidity, the Basel III international banking standards include new large exposure rules (risk diversification) that impose a maximum limit on the size of individual loans. These are intended to reduce the risk of a bank encountering difficulty or even going bankrupt as a result of a default on a large loan. The new rules are to be transposed into Swiss law in accordance with the Federal Council's strategy of adopting key international standards in the financial sector. To this end, the Federal Council is amending its Capital Adequacy Ordinance, and FINMA is updating its Circular 2008/23 “Risk diversification – banks”. The Federal Department of Finance is submitting its ordinance for consultation up to 14 July 2017 (see [press release issued by the Federal Department of Finance](#)), and FINMA is holding a consultation on its circular over the same period. The ordinance and circular are both scheduled to enter into force on 1 January 2019.

Under the amended Capital Adequacy Ordinance, large loans and investments are limited to 25% of a bank's core capital, not its total capital as before. Positions in Swiss Pfandbriefe are given a weighting of 20% rather than the usual 100%. Exceeding the upper limit of 25% is no longer permitted, with the current wide-ranging exceptions for financing residential real estate in particular being abolished. FINMA is updating the related implementing provisions in its circular accordingly. Specifically, these include rules on measuring positions with counterparty credit risk and on reducing risk. Banks' models are no longer permitted here.

FINMA has conducted a first impact study involving 20 institutions. It showed that the new rules rectify the weaknesses in the current regime as desired but have a noticeable impact in some respects. FINMA will conduct a broader impact study in parallel with the consultation. This will entail collecting further data, in particular with a view to determining suitable relief for smaller institutions in the interbank business.