Press release

Date:
31 October 2017

Embargo:

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FINMA revises circulars for national Basel III implementation

The Swiss Financial Market Supervisory Authority FINMA is modifying several bank-related circulars in accordance with changes in Basel III rules and international financial reporting standards, and is holding a consultation on the matter until the end of January 2018. Changes are due to become effective on 1 January 2019, one year later than under the international implementation schedule.

Responding to the most recent financial crisis, the G20 group of countries mandated the Basel Committee on Banking Supervision to develop a comprehensive set of reform measures, commonly known as Basel III. Various components of these rules have been implemented following a staggered entry-into-force schedule since 2013.

Key changes coming into effect in 2018 concern new standards governing interest rate risk in the banking book and standards on disclosure. Concurrently, the revised version of the international financial reporting standards IFRS 9 will also enter into force and need to be taken into account by banks when calculating their eligible capital. These changes are now being adopted into national Swiss regulations. FINMA is therefore revising its corresponding circulars, to which purpose it is holding a consultation running until 31 January 2018. The changes are due to become effective on 1 January 2019, one year later than under the international implementation schedule.

Requirements for managing interest rate risk brought up to date

Latest Basel standards on interest rate risks in the banking book require a full revision of the corresponding FINMA circular (FINMA Circ. 2008/6). No minimum capital will be prescribed for interest rate risks under the Pillar 1 approach. However, risk management rules have acquired additional granularity, which is important in the current period of persistently low interest rates. Additionally, when measuring and disclosing interest rate risk, financial institutions will be required to account for shifts in interest rates more realistically than is presently the case. In that respect, FINMA has followed the suggestion of supervised institutions not to apply the optional standardised framework according to Basel standards, instead, acting upon an industry proposal, it will broaden the scope of existing interest rate reporting arrangements and envisage more comprehensive and meaningful disclosure rules than under the Basel standards. The rules set out in the revised circular also take into account the needs of smaller banks by offering several relaxations in managing interest rate risk.

Differentiated disclosure

FINMA Circular 2016/1 "Disclosure – banks" is being amended for the purpose of adopting the new disclosure tables on key metrics and interest rate risks in accordance with Basel III. These tables apply to all banks. Other new tables are planned, for example in connection with requirements on total loss-absorbing capacity (TLAC), remuneration and value adjustments; these will primarily concern global systemically important banks. As under existing practice, small banks (Categories 4 and 5) will continue to benefit from less extensive disclosure requirements. As a further accommodation, Category 3 banks will in the future only have to publish most of their tables annually as opposed to every three or six months, as is currently required. The volume of such disclosures by Category 3 banks is set to decrease by approximately one-third.

IFRS-compliant calculation of eligible capital

One of the key components of IFRS 9 is a new requirement for the value adjustments of expected losses. FINMA Circular 2013/1 "Eligible capital – banks" is being amended to make the necessary technical adaptations. Consequently, the approximately 15 banks using IFRS can continue determining eligible capital based on the equity capital determined in line with international financial reporting standards.

Minor revisions

Finally, FINMA circulars, 2011/2 "Capital buffer and capital planning – banks" and 2017/7 "Credit risks – banks", will also be selectively revised. In particular, provisions on bank categories and capital buffers contained in the first circular noted above have become redundant as both these considerations are now determined under Federal Council ordinances. These provisions will be cancelled as part of the amendments to these circulars.