

Press release

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FINMA publishes "Risk diversification – banks" circular

The Swiss Financial Market Supervisory Authority FINMA has published its revised circular on banking risk diversification. This revision was necessitated by changes adopted by the Federal Council to the Capital Adequacy Ordinance, which contains rules on banks and securities dealers' capital bases and risk diversification. The changes will enter into force on 1 January 2019.

On 22 November 2017, the Federal Council adopted a revision of the Capital Adequacy Ordinance. These rules, which implement Basel III standards, impose a maximum limit on the size of individual loans, thus avoiding cases where banks would fall into severe financial difficulties because of a large loan default. FINMA has revised the Circular 2019/1 "Risk diversification – banks" to reflect these changes. It will enter into force on 1 January 2019.

As part of the process, FINMA conducted a [consultation](#) on the revision to the circular. Although respondents supported the revision, some reservations were expressed. For example, it was stated that small and medium-sized institutions should benefit from pragmatic solutions and relaxed requirements. Respondents also emphasised that the specific nature of Lombard and repo transactions must be appropriately taken into account, and that the Swiss repo market should be shielded from any negative fallout resulting from the rule change. Taking note of these concerns, FINMA has included several relaxations for smaller institutions, one of which is that the current exemption for domestic residential mortgage lending will continue to apply. Additionally, rules concerning banks in general will be simplified so that the specifics of Lombard and repo transactions can be recognised.