

## Press release

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# Value adjustments for default risks: new approaches

**FINMA is reorganising the provisions on accounting principles for banks. The approach to creating value adjustments for default risks is changing. At the same time, the existing circular on accounting for banks is being replaced with a streamlined ordinance and a principles-based circular.**

Today, FINMA is launching the consultation on the new FINMA Accounting Ordinance and the new Circular 20/xx “Accounting – banks”. They replace the existing Circular 15/1 “Accounting – banks” and the associated FAQs. FINMA is thus issuing a substantially streamlined and clearer set of rules. The new ordinance contains the fundamental provisions on valuation and recognition. The new circular sets out FINMA’s current position on accounting issues. FINMA is issuing these standards in its role as the accounting standard setter for banks in Switzerland. The ordinance and circular are scheduled to enter into force on 1 January 2020, although long transitional provisions are provided for. The consultation will last until 18 June 2019.

### **Value adjustments for default risks: new approaches**

In terms of content, only the approach to creating value adjustments for default risks for non-impaired receivables will change in the new regulations. This will be subject to new regulation in order to eliminate weaknesses in the current system, particularly the risk of a procyclical effect due to value adjustments being created too late. This topic has also been dealt with in the international accounting standards: the new approach has already been applied in the IFRS provisions since 2018 and will be introduced in the US GAAP from 2020. This affects banks which use these international standards for their accounting. The new body of rules for Switzerland applies to all banks and accounts which do not use such international accounting standards, however, and is significantly simpler and more principles-based by comparison.

The rules are also proportional, which is to say that they take the institutions’ categorisation into account: in keeping with the international standards, systemically important banks (categories 1 and 2) must now apply an

approach for expected losses and form corresponding value adjustments. Medium-sized banks (category 3) which operate primarily in the interest rate business are now required to apply a simple, principles-based approach for quantifying inherent default risks in their credit portfolios and to create corresponding value adjustments. The remaining banks and securities dealers can continue to apply the existing approach. The banks in categories 3, 4 and 5 as well as securities dealers may optionally apply an approach to form value adjustments for default risks of a higher category.