

Press release

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Ex-post evaluation: no need for adjustment in the area of accounting requirements

The Swiss Financial Market Supervisory Authority FINMA today publishes its ex-post evaluation report on the requirements for the recognition of value adjustments for default risks on non-impaired loans. Overall, FINMA does not see any need to adjust the requirements. These appear to be effective and have led to an increase in the corresponding value adjustments on non-impaired loans of CHF 1.9 billion since their introduction.

Since 1 January 2020, new requirements have applied to the recognition of value adjustments for default risks on non-impaired loans. FINMA carried out an ex-post evaluation on these requirements in 2022, which are stipulated in the FINMA Accounting Ordinance (FINMA-AO) and FINMA Circular 2020/1 “Accounting – banks”. For this purpose, FINMA conducted its own detailed analyses as well as roundtables with industry representatives and experts and received various feedback. Based on this, FINMA reviewed the necessity, appropriateness and effectiveness of the new requirements.

New requirements lead to an increase in value adjustments

FINMA considers the new requirements to be effective in its ex-post evaluation report. The report is available in [German](#) and [French](#). It can be seen that the banks are recognising value adjustments for default risks at an earlier stage due to the new requirements. In the period from 2019 to 2021, value adjustments for default risks on non-impaired loans increased by a total of CHF 1.9 billion. FINMA assumes that the new requirements will be able to dampen procyclical effects, especially in common equity tier 1 capital, because banks will be able to recognise corresponding value adjustments earlier and use them in a crisis situation. Overall, FINMA does not see any need to adjust the new requirements based on the results of the ex-post evaluation.

Methodological freedom and disclosure remain in focus

For its part, the industry is clearly in favour of retaining the extensive freedom of method on how to determine the value adjustments, which is

mainly granted in the approach to inherent default risks. The freedom of method by its very nature leads to great heterogeneity in implementation. FINMA therefore calls on the banks to periodically review their methods and the parameters used in the process. This is especially true for banks with relatively low amounts of value adjustments.

FINMA has identified deficiencies in the disclosures relating to value adjustments. On the one hand, this concerns the disclosure of how value adjustments are to be used in a crisis situation and by when they are to be replenished. On the other hand, there are deficiencies in the explanations of the methods and data used and the assumptions made. The quality of disclosure is of great importance, especially against the background of the extensive freedom of methods mentioned above. FINMA therefore calls on banks and audit firms to critically review the disclosures and make improvements where necessary.

FINMA will continue to closely monitor the development of value adjustments, and in particular the issue of low amounts of value adjustments as a result of methodological freedom, as part of its supervisory activities. The same applies to the question of the adequacy of disclosure.