Press release

Date:
27 March 2024

Embargo:

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FINMA publishes ordinances to implement the final Basel III standards

The Swiss Financial Market Supervisory Authority FINMA is publishing ordinances to implement the final Basel III standards in Switzerland. These ordinances contain the implementing provisions for the Federal Council's revised Capital Adequacy Ordinance (CAO) for banks. They will enter into force on 1 January 2025.

The Basel Committee on Banking Supervision finalised its reform agenda following the 2008 financial crisis by publishing the Basel III standards between the end of 2017 and the beginning of 2019. The key elements of these standards are more risk-adequate capital requirements and better comparability of the capital ratios published by the banks. To this end, the calculation of minimum capital requirements based on internal models was restricted. The standardised approaches, by contrast, were designed to be more risk-oriented, for example in the area of mortgage loans. For Switzerland, the Federal Council has primarily adopted these rules in the Capital Adequacy Ordinance (CAO).

FINMA supports the introduction and application of the final Basel III standards in Switzerland. This will remedy the deficits in banking regulation identified as a result of the 2008 financial crisis. In addition, the Swiss financial centre with its strong international ties will benefit from a strict implementation that is closely aligned with the standards. This is because internationally consistent application in the individual jurisdictions is crucial for the globalised financial system. The Basel Committee will continue to review the country-specific introduction and application for consistency with the final Basel III standards through the Regulatory Consistency Assessment Programme (RCAP).

The Federal Council instructed FINMA to issue technical implementing provisions for various areas of the final Basel III standards. FINMA is fulfilling this mandate by issuing five new FINMA ordinances. The ordinances replace various FINMA circulars. FINMA conducted a hearing on this in 2022 at the same time as the consultation on the Capital Adequacy Ordinance. All enactments will enter into force on 1 January 2025.

As part of the hearing, the participants submitted various – mainly technical – proposals for amendments. FINMA has followed up on individual concerns in consultation with the Federal Department of Finance and the Swiss National Bank. In particular, minimum haircuts will not be introduced for certain securities financing transactions as long as this rule is not introduced in other important financial centres. In addition, the FINMA regulations allow for a more risk-sensitive treatment of managed collective assets than under the final Basel III standards. This also aligns with the regulations planned in the EU and the United Kingdom.

The **Ordinance on the Trading Book and Banking Book and Eligible Capital of Banks and Securities Firms** (TBEO-FINMA) replaces FINMA Circular 2013/1 “Eligible capital – banks” and regulates in particular technical aspects of the initial allocation of positions to the trading and banking book, the modalities for changes in the allocation – which is possible in exceptional cases – and for the transfer of risks between the two books.

The **Ordinance on the Leverage Ratio and Operational Risks of Banks and Securities Firms** (LROO-FINMA) replaces FINMA Circular 2015/3 “Leverage ratio – banks” and the parts of FINMA Circular 2008/21 “Operational risks – banks” that are currently still in force. This ordinance governs the slightly revised calculation of the total exposure as the basis for calculating the leverage ratio and provides a detailed definition of income and expenses as the basis for calculating the minimum capital requirements for operational risks.

The **Ordinance on the Credit Risks of Banks and Securities Firms** (CreO-FINMA) replaces FINMA Circular 2017/7 “Credit risks – banks” and regulates in particular the calculation of minimum capital requirements for so-called CVA risks, a revised version of the previous current exposure method designed for small banks for calculating the credit equivalent of derivatives, the more restrictive requirements of the internal ratings-based approach (IRB approach) and technical details of the standardised approach for credit risks.

The **Ordinance on the Market Risks of Banks and Securities Firms** (MarO-FINMA) replaces FINMA Circular 2008/20 “Market risks – banks” and regulates in particular the calculation of minimum capital requirements for market risks according to the standardised approach and the model approach, in addition to the simplified standardised approach as a slightly adapted version of the previous standardised approach.

The **Ordinance on the Disclosure Obligations of Banks and Securities Firms** (DisO-FINMA) replaces FINMA Circular 2016/1 “Disclosure – banks” and in particular regulates new and revised disclosure tables on risks and capital requirements.