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Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
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New Basel liquidity requirements and new FINMA circular on liquidity

Key points

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Switzerland is introducing the internationally agreed quantitative liquidity requirements of the Basel III framework and the qualitative requirements in terms of liquidity risk management standards for all banks. To this end, FINMA is opening the consultation on its new circular "Liquidity – banks". At the same time, the Federal Department of Finance is conducting a consultation on the new Liquidity Ordinance. Both consultations end on 1 October 2012.

The financial crisis that has been ongoing since 2008 has led to a consensus view at both national and international levels that banks must meet not only stricter capital adequacy requirements, but also internationally harmonised quantitative liquidity requirements and qualitative requirements in terms of liquidity risk management standards. Under the Basel III framework drafted by the Basel Committee on Banking Supervision, banks are required to meet two minimum standards for funding liquidity: the short-term Liquidity Coverage Ratio (LCR) which will become a regulatory standard from 2015 and the long-term Net Stable Funding Ratio (NSFR) starting in 2018 at the latest. These two deadlines will be preceded by observation periods entailing reporting obligations. Moreover, the Basel Committee has also drafted qualitative requirements in the form of its principles for sound liquidity risk management and supervision.

Against this backdrop, the current, outdated Swiss liquidity rules (referred to in German as "Gesamtliquidität") will gradually be revised and expanded to include the qualitative requirements for managing liquidity risk. As with the capital adequacy and risk diversification requirements, the new liquidity rules will be regulated in a separate ordinance. The current Swiss liquidity requirements ("Gesamtliquidität") will remain effective until the preliminary LCR reporting obligation is replaced by the LCR regulatory standard in 2015. FINMA will specify its supervisory practices regarding the draft Liquidity Ordinance (D-LO) in a circular.

The circular will contain details of the new reporting requirements as one of the steps towards preparing the introduction of the liquidity metrics (Art. 3 D-LO). The reporting requirements that form the basis for the LCR calculations will be introduced in mid-2013. The rules for NSFR reporting will follow at a later date. The circular will set out the reporting instructions, including the scope of application, the reporting reference date, the submission deadline and the frequency of reporting. It will refer to a reporting form and a set of processing instructions, both of which will be aligned with the international standards that are currently being revised and expanded by the Basel Committee. Preliminary versions of both documents are available on the FINMA website for the LCR test reporting phase that is currently in progress with selected banks.

The circular will also specify the supervisory practices concerning the qualitative requirements in terms of liquidity risk management standards (Art. 5-10 D-LO). A transition period up to the end of 2013 was granted to take account of the fact that the changeover to the new requirements necessitates amendments to banks' internal organizational guidelines, regulations and approval processes, all of which will take some time to implement. Establishing requirements for the management and supervision of liquidity risks is intended to ensure sound liquidity risk management. In light of the heterogeneity of the banking sector, the qualitative requirements are being formulated as principles, allowing each bank to align its liquidity risk management to the type, scope, complexity and risks of its business activities (Art. 5 D-LO and margin no. 10 FINMA circular).