

FINMA Accounting Ordinance and FINMA Circular 20/xx “Accounting – banks”

Key points

18 March 2019

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1. FINMA is formalising the provisions in relation to the accounting for banks in a new FINMA ordinance. In doing so, it is exercising the powers delegated to it in the Banking Ordinance and putting in place a principles-based and proportional set of accounting rules. In terms of content, the principles previously set out in FINMA Circular 2015/1 “Accounting – banks” will be adopted without any changes. The FINMA Accounting Ordinance contains the fundamental provisions on valuation and recognition. By creating a new FINMA Accounting Ordinance FINMA is fulfilling its role as the accounting standard-setting body for banks.
2. As a result, FINMA Circular 2015/1 “Accounting – banks” will be substantially shortened and will set out FINMA’s booking and disclosure practices. In addition, the FAQs on the circular will be abrogated. As part of the revision, these questions and answers have been transferred into the ordinance and circular for the sake of clarity.
3. Overall, this has resulted in a significantly streamlined and clearer set of regulations with a clear system, without changing any of the previous content.
4. FINMA is making changes to the content in the area of value adjustments. It is introducing a new approach for the creation of value adjustments for default risks, which takes into account the principle of proportionality based on the categorisation of banks.
5. Systemically important banks in categories 1 and 2 must introduce an expected loss approach.
6. Category 3 banks which operate primarily in the interest income business are newly required to create value adjustments for inherent default risks.
7. Banks in categories 4 and 5 and category 3 banks which do not operate primarily in the interest income business as well as securities firms may continue to apply the current approach with value adjustments for latent default risks.
8. All banks in categories 3, 4 and 5 as well as securities firms may optionally apply an approach to create value adjustments for default risks of a higher category.
9. FINMA is thus choosing a proportional, lean and intentionally principle-based approach for the creation of value adjustments for default risks, which minimises the weaknesses of the current system, in particular the procyclical effect caused by the late creation of value adjustments.