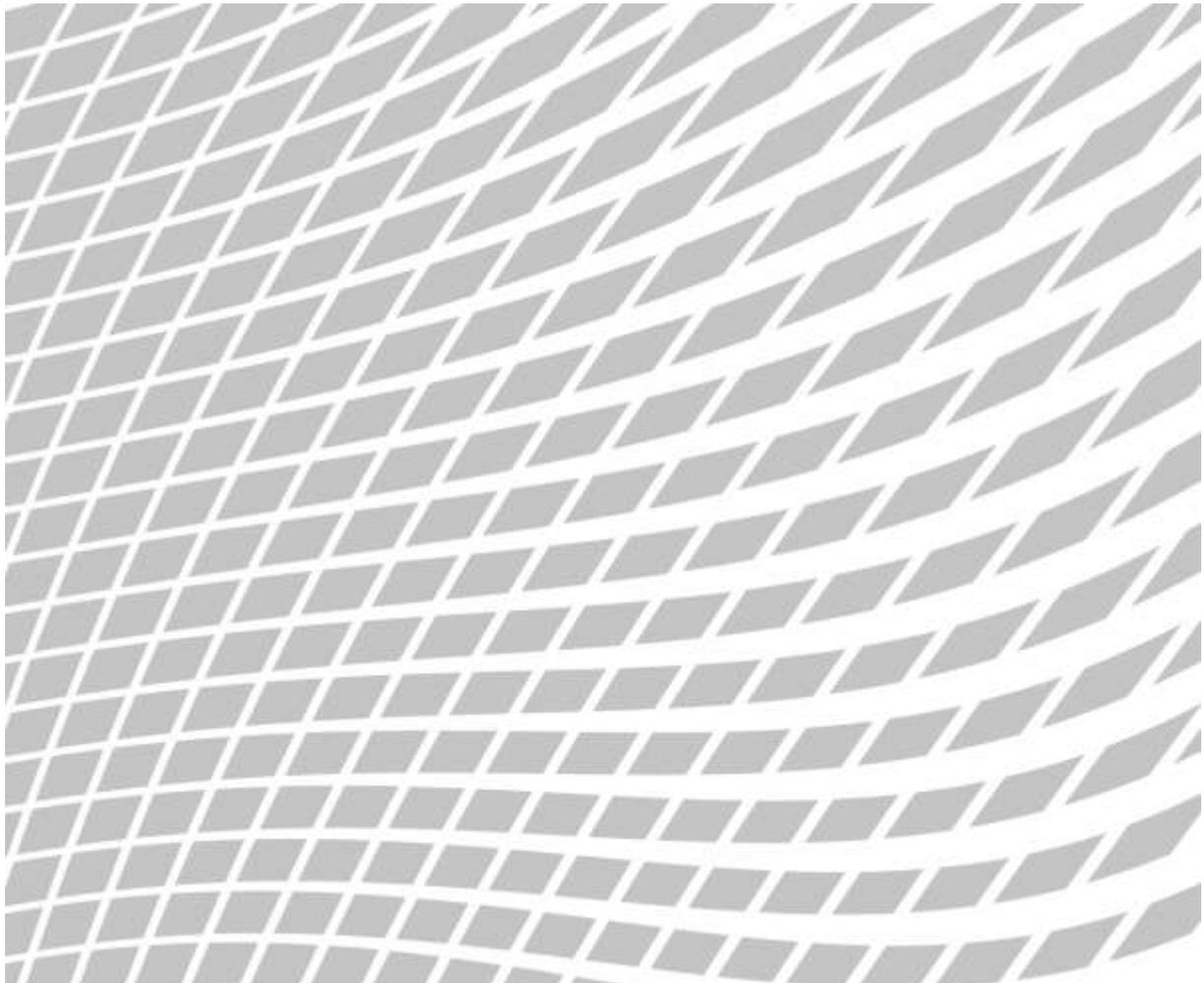


13 June 2016

Adjustments to the Capital Adequacy Ordinance (CAO) and FINMA Circular 17/xx "Credit risks – banks"

Key points



The Federal Council has further aligned the Capital Adequacy Ordinance (CAO) with the enhanced Basel III capital adequacy requirements, while at the same time FINMA has adjusted its circular on “Credit risks – bank”. The Federal Department of Finance is therefore initiating a hearing on the partially revised draft of the CAO, while FINMA is opening a consultation on the fully revised FINMA circular. Both the hearing and the consultation will run until 15 September 2016, following which the respondents’ comments will be evaluated.

As an international regulatory framework for banks, Basel III includes standards on calculating risk-weighted capital requirements, in particular those for credit risks.

The revised drafts of the CAO and FINMA Circular “Credit risks – banks” implement the revised Basel III standards on credit risk into national law. Both pieces of regulation will come into force on 1 January 2017. In unison with international standards, the revised capital requirements for securitisations in the banking book will become effective as of 1 January 2018.

In essence, Basel III changes to credit risk capital requirements impact the following four areas:

- The regulation on calculating derivative exposure, which dates back to the 1990s, has been updated.
- The new method for calculating derivative exposure has led to the introduction of definitive rules on derivative positions vis-à-vis central counterparties, as the rules issued in 2013 were only temporary.
- Following work on shadow banking performed by the Financial Stability Board, capital requirements for all types of bank claims vis-à-vis all types of investment funds have been revised.
- Introduced in the Basel II regulation in 2007, capital adequacy rules on securitisation positions in the banking book have been fully revised.

Whereas the CAO only underwent some minor changes, FINMA Circular 2008/19 “Credit risks – banks” was fully revised owing to the technical aspects it covers.