FINMA Guidance
02/2020
Temporary exemptions for banks due to the COVID-19 crisis
31 March 2020
1 Background and purpose of the exemptions

The COVID-19 pandemic is having a significant impact on the financial markets and the real economy. The Swiss government, the Swiss National Bank and FINMA have already taken various measures to limit the consequences for the economy and the financial system. Of particular note are the Federal Council’s COVID-19 ordinance on joint and several guarantees, the deactivation of the countercyclical capital buffer proposed by the SNB and approved by the Federal Council, and the temporary exemption introduced by FINMA in relation to the leverage ratio. Furthermore, the Federal Council supported the recommendations made by FINMA and the SNB recommending a prudent distribution policy and welcoming the suspension of share buyback programmes. Measures have also already been taken at an international level. For example, the Governors and Heads of Supervision recently announced the deferral of the final stage of Basel III implementation by one year to provide additional management capacity for banks and supervisors to respond to the crisis.

In this Guidance, FINMA provides the banks with clarifications for dealing with the COVID-19 credits with federal guarantees within the framework of the capital and liquidity requirements, and on temporary exemptions relating to the leverage ratio and on risk diversification. FINMA also provides information about the expected credit loss approach under IFRS 9 and its application in the context of the COVID-19 crisis.

2 Capital requirements for COVID-19 credits with federal guarantees

Credits granted under the COVID-19 ordinance on joint and several guarantees will be jointly and severally guaranteed by the loan guarantee cooperatives to 100% or 85% of their value respectively and will in turn be guaranteed by the Confederation. Credits of up to CHF 500,000 will be fully guaranteed by the Confederation, while credits of between CHF 0.5 million and CHF 20 million will be guaranteed by the Confederation to 85% of their value.

When calculating the minimum capital required, the COVID-19 credits granted by the banks can be considered as credits guaranteed by the Confederation for the applicable level of coverage (i.e. 100% or 85%) and treated in accordance with margin no. 311 of FINMA Circ. 17/7 “Credit risks – banks”. For 85% coverage, 15% of the claim is therefore to be treated with the counterparty’s risk weighting.

COVID-19 credits fall within the scope of the leverage ratio.
3  LCR calculation taking into account the SNB COVID-19 refinancing facility

For credit facilities granted to companies within the scope of the COVID-19 programme, no outflow should be entered for the part covered by the SNB COVID-19 refinancing facility. The SNB refinancing facility can be considered as collateral with Level 1 HQLA pursuant to margin no. 273 FINMA Circ. 15/2 “Liquidity risks – banks”.

4  Exemptions relating to the leverage ratio

In the current environment, for a number of reasons various banks are holding large deposits with central banks. This is not unexpected in light of the market developments and does not lead to an increased risk for these banks. The regulatory framework of the leverage ratio provides that all balance sheet items should be backed by capital, regardless of the risk. The leverage ratio thus serves as a complement to the risk-weighted approach. Unusually high deposits held at central banks can therefore lead to a reduction of the leverage ratio without increasing the banks’ risk. FINMA considers this pro-cyclical effect to be counterproductive in the present environment, as it unnecessarily restricts the ability of the banks to supply credit to the real economy. When calculating the leverage ratio in accordance with Article 46 of the Capital Adequacy Ordinance (CAO), the following should therefore be excluded: deposits held at central banks in all currencies pursuant to margin nos. 5 and 7 of Annex 1 to FINMA Circular 2020/1 “Accounting – banks”.

This relaxation is based on Article 4 para. 3 BA. It applies until 1 July 2020 and can be extended by FINMA if necessary. FINMA will announce a possible extension by the beginning of June 2020 at the latest.

As communicated at the press conference of the Federal Council on 25 March 2020, the capital freed up through this relief in the leverage ratio calculation is not to be distributed. For banks whose shareholders approved after this date dividends or other similar distributions relating to 2019, or who plan to seek such shareholder approval, the capital relief will be reduced by the amount of the said distributions.

FINMA reserves the right to set further institution-specific limits on how the released capital can be used on a case-by-case basis. The disclosure of the temporarily adjusted leverage ratio and the associated reporting in the context of the capital statement are dealt with in the Appendix to this Guidance.
5 Exemptions relating to risk diversification

Owing to market turbulence, increasing margin payments to counterparties have been necessary. This can lead to the upper limit of 25% or 100% of Tier 1 capital as set out in Article 97 or 98 CAO being exceeded in the context of the risk diversification requirements.

To give banks more time to manage such increased positions if needed, the otherwise strict upper limit may be exceeded temporarily as follows:

a. Relaxation in relation to the 25% upper limit pursuant to Article 97 CAO: the concentration risk may not exceed:
   • 35% for a maximum duration of 3 weeks
   • 30% for a maximum duration of 5 weeks
   The amount by which the regular 25% upper limit is exceeded is to be covered by free eligible Tier 1 capital.

b. Relaxation in relation to the 100% upper limit in interbank business pursuant to Article 98 CAO for banks in Categories 4 and 5: the concentration risk may not exceed:
   • 140% for a maximum duration of 3 weeks
   • 120% for a maximum duration of 5 weeks
   The amount by which the 100% upper limit is exceeded is to be covered by free eligible Tier 1 capital.

This relaxation is based on Article 4 para. 3 BA. It is valid for cases where the upper limit is exceeded before 1 July 2020 and can be extended by FINMA if necessary. FINMA will announce a possible extension by the beginning of June 2020 at the latest.

6 IFRS9 and COVID-19

Based on Article 81 para. 1 or 65 para. 1 of the FINMA Accounting Ordinance in conjunction with Article 3 para. 1 of the FINMA Accounting Ordinance, the Swiss banks can use the International Financial Reporting Standards (IFRS) for their consolidated financial statements as well as their true and fair view statutory single-entity financial statements. Eight banks currently apply IFRS.

On 1 January 2018 the IASB introduced the IFRS 9 Financial Instruments standard. This standard contains a three-stage expected credit loss approach (ECL approach). FINMA expects the affected banks to continue to observe the requirements of IFRS 9. However, FINMA calls on the affected
banks to take into account the "IFRS 9 and covid-19" document published by the IASB on 27 March 2020. The global spread of COVID-19 is an extreme situation. FINMA emphasises that banks may make use of the flexibility provided by IFRS 9. FINMA further notes that the support measures taken by authorities and governments around the world in connection with COVID-19 are to be incorporated in their forward-looking considerations of ECL estimates. In addition, measures such as payment deferrals should not automatically, if other factors remain the same, result in a transfer of a credit to another stage in the IFRS9 categorisation. In exercising their judgment, banks should differentiate between borrowers with business models that seem sustainable in the longer term and borrowers where it seems unlikely that creditworthiness will be restored.
Appendix

Disclosure of the leverage ratio without central bank deposits

For the duration of the exclusion of central bank deposits from the leverage ratio and from the total exposures, the disclosures for the leverage ratio as defined in FINMA Circ. 16/1 “Disclosure – banks” are also to be made excluding these deposits. This also applies to the disclosure of the simplified leverage ratio within the scope of the small banks regime pursuant to Articles 47a–47e CAO. The exclusion is to be referred to qualitatively by way of a footnote. Where disclosure is made using table LR1, the exclusion is to be considered in row 7 “Other adjustments”.

Capital statement

The excluded deposits are to be entered with a minus sign in row 1.7 of the LERA form. The value to be entered in row 2.1.1 is to be entered excluding these deposits.