Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Press release

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FINMA details TBTF decrees

As required by law, the Swiss Financial Market Supervisory Authority FINMA issued two decrees to the Credit Suisse Group and UBS concerning the 'too big to fail' provisions. The decrees detail the requirements specified in the provisions for systemically important banks. Major focus has been put on capital requirements.

Alongside other regulations, the Swiss ‘too big to fail’ (TBTF) regime prescribes stringent capital requirements. The capital required comprises fixed minimum requirements, capital buffers and a variable component, depending on the financial group's overall size and its market shares in domestic credit and deposit markets.

Based on the 2012 year-end figures, the decrees have set out for the first time the total capital requirements that vary for both banks, depending on their size and national market share. Assuming that the values for both banks remain unchanged in subsequent years, the minimum capital requirement for UBS would be 19.2% and 16.7% for Credit Suisse of their risk-weighted assets (RWAs) in 2019. The second capital requirement, an unweighted leverage ratio, would amount to 4.6% (UBS) and 4.0% (Credit Suisse). The difference between both banks is due solely to Credit Suisse’s much smaller market share in the domestic credit business as can be deducted from the data available. Considering the current efforts by banks to reduce their balance sheet and the likelihood of potential changes in their market share, it is not unreasonable to assume that the 2019 capital requirements will drop. The transitional provisions defined in the Capital Adequacy Ordinance (CAO) allows for compliance with both of these capital requirements. Subsequently, the values for risk-weighted assets are still below a standard capital requirement for both big banks (14.4% of the RWAs), which had been defined by FINMA with immediate effect prior to implementing the Basel III rules.

Thresholds cannot be overshot or undershot

The Capital Adequacy Ordinance (CAO) prescribes two thresholds inherent to equity capital at systemically important banks. At the single entity (solo) level, the capital requirement cannot fall below 14% of the risk-weighted assets. At the same time, it should not be the case that compliance with stricter requirements at solo level exceeds the total capital requirements as specified above and set

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out in the FINMA decrees, owing to compliance at the consolidated level (group). This is the current situation at both big banks which has necessitated granting rebates in line with current legislation.

Adjustments for holdings

By complying with their capital requirements at solo level, both big banks would, nevertheless, reach an amount of equity capital at the consolidated group level that exceeds the fixed target. The reason for this is the high capital requirement necessary to implement the CAO consistently at solo level. This would, in particular, result in the value of holdings in subsidiaries being deducted from the capital at solo level, which is not the case, however, at the consolidated level.

If the target at the consolidated group level is overshot, the law prescribes that – provided specific conditions are met - FINMA must grant rebates at solo level to those banks affected. To determine the rebates, FINMA proceeded as follows:

- As a first step, capital requirements at solo level were reduced to the regulatory minimum level of 14%. At this stage, this measure alone is not sufficient to prevent both banks from considerably overshooting their total target requirements at the consolidated level.
- As a second step, FINMA subsequently granted rebates for the treatment of holdings in subsidiaries. Rebates are for **direct holdings** in subsidiaries which previously had to be fully deducted from equity capital. Up to a certain threshold, holdings can now be captured using a risk weight of 200%. FINMA has granted these rebates because the current Swiss provisions at solo level for direct holdings in subsidiaries are severe compared with those at the international level. Under certain conditions (in particular consolidated treatment), foreign companies (for instance in the EU) can be fully exempted from complying with solo capital requirements.
- Moreover, FINMA has standardised the treatment of holdings: At solo level, it had been the case that **indirect holdings** in subsidiaries were formally recorded as loans granted by the bank. Should such loans be effectively transformed into holdings at a sub-level of the financial group, they are now treated similarly to the bank's direct holdings. This has led to a pronounced tightening of capital requirements for indirect holdings, irrespective of the threshold level that divides holdings into two categories, one being risk-weighted at 200% and the other being deducted from equity capital.

FINMA will review annually whether the criteria for granting rebates have been met and will make changes, where necessary.

Other adjustments and disclosure

In addition, FINMA has abolished rebates previously granted for loans to the majority of regulated subsidiaries abroad (known as G-10 Relief). This was decided based on the reassessment of such positions that, in the past, were substantial in volume. In light of the lessons learned during the financial crisis, it no longer seems practical or appropriate to value such loans as being risk-free.

In their first quarterly report for 2014, CS and UBS have recently complied with their disclosure requirements in line with the rules set out in FINMA Circular 2008/22 'Capital adequacy disclosure –

banks'. The transparency requested from banks should thus allow third parties to assess the relevance of the rebates.

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