

Post-RCAP follow-up report: Switzerland

Reference RCAP report: Assessment of Basel III capital regulations in Switzerland, June 2013

This follow-up report provides an overview of where the jurisdiction has taken, or plans to take, further actions to address findings raised in the RCAP assessment report. The report is based on self-reporting and the reported actions have not been reviewed by the Basel Committee.

The information provided below in Part A refers to the International Approach (IA). No amendments were made with respect to the Swiss Standardised Approach (SSA), which is used by less and less banks and which will also cease to exist after 2018. Further information on the IA and SSA can be found in the above mentioned RCAP report, section 1.1.

Part A¹

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s) ²	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report) ³	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
BIII, Capital, 53, footnote 12	The team identified a deviation in terms of the capital instruments allowed under Basel III as	CAO revised through modified Art. 22 Para. 2 Let. C.	Art. 22 Para. 2 Let. C restricts eligible CET1 for banks in the form of joint-stock companies that are listed on a

¹ To be completed only for those findings where action has been initiated/taken. Any plans for addressing other findings may be indicated in Part B.

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	CET1 for internationally active banks structured as joint stock companies (see section 2.3.1)	Final regulation.	recognised exchange to common equity (regardless of whether other equity would comply with all criteria).
BIII, Capital, 69-70	The team has identified a deviation for the permission of netting of deferred tax liabilities (DTLs) (see section 2.3.1)	FINMA-Circular 13/1 new margin nos. 107.1 and 107.2 Final regulation.	DTA netting clarified
BIII, Capital, 75	In July 2012, the BCBS published a revised treatment of accounting valuation adjustments arising from the bank's own credit risk with regard to derivative liabilities in Basel III, Para 75. This issue is currently not implemented in Swiss rules (see section 2.3.1).	CAO revised: new Art. 31a Final regulation.	Implementation of July 2012 BCBS treatment under Basel III, Para 75 as original Swiss CAO had originally been enacted on June 1, 2012, before date of such revised BCBS treatment.
BIII, Capital, 78	The Assessment team has identified a deviation in terms of how indirect holdings in capital instruments are captured (see section 2.3.1).	CAO revised: Art. 36 Para. 1 Final regulation.	Explicit mentioning of indirect holdings
BIII, Capital, 78	The team has identified a need for clarification for CAO article 52, which deals with "potential future holdings as a result of contractual obligations to purchase own shares" (see section 2.3.1).	FINMA Circular 13/1 margin no. 117.1 Final regulation.	Explicit mentioning that "potential future holdings as a result of contractual obligations to purchase own shares" must be included.
BIII, Capital, 80-83	The team has identified a need for clarification for the treatment of any kind of exposure to the financial sector to capture direct, indirect and synthetic holdings for the application of the threshold deductions (see section 2.3.1).	CAO revised: Art. 52 Para. 2 Final regulation.	Explicit mentioning of direct, indirect and synthetic in order to clarify.
BII, Para 54	For banks not making use of external ratings,	CAO revised Annex 2, item 1.2	Fixed risk weight of 0% now only for exposures to the Swiss

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	claims to the Swiss Sovereign have a fixed risk weighted of 0% irrespective of the exposure being denominated and funded in Swiss Franc (see section 2.3.3).	Final regulation.	Sovereign if denominated and funded in Swiss Franc.
Paragraphs 60 –64	No sovereign floor is imposed that would ensure that no claim on an unrated bank will receive a risk weight lower than that applied to the claims on its sovereign of incorporation (see section 2.3.3).	CAO revised: new Para. 3 in Art. 68 Final regulation.	Sovereign floor implemented in accordance with Para. 60-64 and also the carve-out for trade finance exposures according to BCBS Standards.
BII, Para 82 – 89	Paragraph 82 to 89 not that explicitly set out (see section 2.3.3).	CAO revised Annex 1, items 3.1, 5.1, 5.2, 6.1, 6.2, and corresponding remarks Final regulation.	Missing aspects of Basel II, Paras. 82 to 89 implemented in revised/new items in Annex 1.
BII, Para 95	Paragraph 95 is not included in FINMA Circular 08/19 (see section 2.3.3).	FINMA-Circular 08/23, new margin no. 45.1 Final regulation.	Basel II, Para. 95 implemented in new margin no. 45.1 of the FINMA Circular on Disclosure.
BII, Para 105	Paragraph 105 not included in FINMA Circular 08/19 (see section 2.3.3).	FINMA-Circular 08/19, revised margin nos. 13.1-13.4 Final regulation.	Basel II, Para. 105 implemented in new margin nos. 13.1-13.4.
BII, Para 185	For collateralised transactions, a 0% risk weight can be applied to gold where the exposure and collateral are denominated in the same currency (see section 2.3.3).	FINMA-Circular 08/19, revised margin no. 131 Final regulation.	Reference to gold deleted in margin no. 131.
BII, Para 197	Para 197 is not included in FINMA Circular 08/19 (see section 2.3.3).	FINMA-Circular 08/19, new margin no. 232.1	Basel II, Para. 197 now included in margin no. 232.1.

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		Final regulation.	
BII, Para 199	Para 199 is not included in FINMA Circular 08/19 (see section 2.3.3).	FINMA-Circular 08/19, new margin no. 232.2 Final regulation.	Basel II, Para. 199 now included in margin no. 232.2.
BII, Para 340-358	Treatment of equity exposures under IRB: Why did the Swiss IRB equity implementation differ from Basel standards? (see section 2.3.4).	FINMA-Circular 08/19 margin nos. 266, 319 (deleted), 323 (deleted) 353 (deleted), 357-358 (deleted), 360 (deleted), 362-366 (deleted) Final regulation.	EU IRB equity treatment deleted, reference to Basel Standards text applies therefore (cf. margin no. 266).
BII, Para. 712 (iii) to 712 (viii)	Margin 94.10 refers to deduction of capital, while Basel III foresees a capital charge of 100%. (see section 2.3.7). Margin no. 227.1 of FINMA-Circular 08/20 cannot be applied for non-rated nth-to-default credit derivatives (see section 2.3.7).	FINMA-Circular 08/20: margin no. 94.10 FINMA-Circular 08/20: margin no. 227.1 Final regulation.	Margin no. 94.10 amended such that capital charge of 100% applies instead of deduction from capital. Margin no. 227.1 amended to clarify treatment of non-rated nth-to-default credit derivatives (for those a 100% capital charge applies now).
BII, Para 718 (Lxxvi)	The team has identified a deviation in terms of the weighting scheme to daily observations for the stressed VaR calculation (see section 2.3.7).	FINMA-Circular 08/20: margin no. 296.1 last sentence Final regulation.	Sentence added to clarify that no weighting possible for the stressed VaR calculation.
BII, Para. 718 (Lxxxvii)	Government bonds are subject to the IRC (see section 2.3.7).	FINMA-Circular 08/20: margin no. 283 – footnote 28 added Final regulation.	Footnote spells out that government bonds are subject to the IRC.
BII, Para 718 (cii)	Clarification is needed as to whether FINMA can withdraw a model approval in case of more than 10 back testing exceptions (see section 2.3.7).	FINMA-Circular 08/20: margin no. 334 last sentence Final regulation.	Sentence added to clarify that FINMA can also withdraw a model approval in case of serious problems with the model, which would include the situation of more than 10

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			back testing exceptions
BII, Para. 718(cviii)-718(cix)	Margin no. 32 of FINMA-Circular 08/20 does not refer to pricing capacity of banks in periods of stress. Also, margin no. 32 does not refer to banks' capacity to value positions in times of market interruptions and illiquidity (see section 2.3.7). Clarification is needed as to whether banks have to use third party valuations when checking whether valuation adjustments are necessary, which is also relevant for model valuations (see section 2.3.7).	FINMA-Circular 08/20: revised margin no. 32 last sentence added Final regulation. FINMA-Circular 08/20: revised margin no. 46 last sentence added Final regulation.	Last sentence requires pricing capacity of banks in periods of stress and in times of market interruptions and illiquidity. Sentence added to clarify that banks have to use third party valuations.

References to updated regulations (in German, no English versions available)

- CAO (Capital Adequacy Ordinance): <http://www.admin.ch/opc/de/classified-compilation/20121146/201501010000/952.03.pdf>.
- FINMA-Circular 13/1: <http://www.finma.ch/d/regulierung/Documents/finma-rs-2013-01-d.pdf>

Part B

Please detail here your plan(s), if any, for amendment/rectification of findings, including the expected or tentative time frame.

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Various, not defined more precisely	Transition of banks under the Swiss Standardised Approach (SSA) to the International Approach (IA).	NA	Transition of banks from SSA to IA takes place according to expectations (cf. Figure 1 of the report "Assessment of Basel III capital regulations in Switzerland, June 2013").
Paras 272, 328 to 330, 471 of Basel II	Additional evidence would be required for the assessment of the impact of the treatment of defaulted assets under paras 272, 328 to 330, 471 of Basel II to come to a final judgment on the potential materiality of LGDs.	NA	We are participating in current SIG-BB benchmark exercises on that topic and are very interested in their outcome. We hope that this will provide additional evidence on that finding.
Issues subject to finalisation of international standards Basel III capital rules (Para 142-145): Bank specific countercyclical buffer once implemented by BCBS	There is not yet a detailed Swiss regulation in this context.	NA – FINMA is very interested in the February 2015 workshop in Basel dealing with that topic. FINMA has taken note of the EU regulation/standards "CRD 4 – Final draft RTS on the identification of the geographical location of relevant credit exposures", and would like to understand whether the BCBS recommends to make use of this or will publish own guidance to ensure a consistent application of the CCB.	To ensure consistency internationally, FINMA will update its regulation as soon as international standards/guidance by the BCBS will be available.
Issues subject to finalisation of international standards	G-SIB additional loss absorbency requirements once implemented by BCBS.	NA – this part has not been part of the Swiss RCAP (cf. table 1 of the RCAP Report for Switzerland).	NA – we are closely monitoring current developments and intend to implement international standards within the timelines foreseen as soon as the standards are clear.

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