

RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: Switzerland

Status as of: 31 December 2017

With reference to RCAP report(s): Assessment of Basel III regulations – Switzerland (June 2013)¹, LCR regulations – Switzerland (October 2017)², and G-SIB framework – Switzerland (June 2016)

Remark to Part A relating to risk-based capital standards (RCAP-Capital; Table A):

The information provided in Part A is identical to the one contained in the post RCAP monitoring report of March 2017. As most of the findings have already been addressed, there was nothing new to report. Also the information in Part B is identical to the one contained in the post RCAP monitoring report of March 2017. The information provided 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 cease to exist after 2018. Further information on the IA and SSA can be found in the above referenced RCAP report, section 1.1.

Remark to G-SIB requirements (RCAP-G-SIB requirements):

G-SIBs were reported as “no updates” with the following reasons:

- The assessment was based on the too-big-to-fail 1 (TBTF1) version of our SIB-regulation.
- Just after the cut-off date of the assessment Switzerland introduced the TBTF2 version (in force since 1 July 2016).
- The RCAP report mentions that the "new framework is likely to rectify several of the deviations identified with respect to the G-SIB framework". We can confirm this. The TBTF2 version resolves the criticised "flat minimum CET1 requirement for G-SIBs" which was the root cause of 4 out of the 5 deviations in the HLA component.

¹ http://www.bis.org/bcbs/implementation/l2_ch.pdf

² <https://www.bis.org/bcbs/publ/d422.pdf>

- With regards to the missing formal Swiss regulation mandating restrictions on dividend payouts (the only potentially material deviation of the 5 deviations mentioned below, Basel paragraph number 57), Switzerland does not intend to change the existing process, as we deem the implemented, necessary steps to ensure immediate recreation on the buffers as more conservative than the Basel rules.

Part A³

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) ⁴	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report) ⁵	(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 CET1 for internationally active banks structured as joint stock companies (see section 2.3.1)	CAO revised through modified Art. 22 Para. 2 Let. C. Final regulation.	Art. 22 Para. 2 Let. C restricts eligible CET1 for banks in the form of joint-stock companies that are listed on a 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

³ To be completed only for those findings where action has been taken or initiated. Any plans for addressing other findings may be indicated in Part B.

⁴ All entries under this column were copied from http://www.bis.org/bcbs/implementation/l2_ch.pdf Annex 6, first column of the table, and Annex 8.

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

Table A

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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 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).	CAO revised Annex 2, item 1.2 Final regulation.	Fixed risk weight of 0% now only for exposures to the Swiss 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	FINMA-Circular 08/19, revised margin no. 131 Final regulation.	Reference to gold deleted in margin no. 131.

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	(see section 2.3.3).		
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 Final regulation.	Basel II, Para. 197 now included in margin no. 232.1.
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 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	FINMA-Circular 08/20: revised margin no. 32 last sentence added	Last sentence requires pricing capacity of banks in periods of stress and in times of times of market interruptions and

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

Table A

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	<p>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).</p>	<p>Final regulation.</p> <p>FINMA-Circular 08/20: revised margin no. 46 last sentence added</p> <p>Final regulation.</p>	<p>illiquidity.</p> <p>Sentence added to clarify that banks have to use third party valuations.</p>

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to liquidity standards (RCAP-LCR)

Table B

(1) Issue and/or relevant Basel paragraph number(s) ⁶	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
Paragraph 50	FINMA will rephrase Mn 120 in FINMA Circ.-15/2 so that it is clearly stated that only those securities issued by EGW that are guaranteed by	FINMA Circ.-15/2 Mn 120 LiqO Art. 15a	Circular published on 7 Dec 2017, effective 1 Jan 2018

⁶ All entries under this column were copied from <https://www.bis.org/bcbs/publ/d422.pdf> Annex 5, last column

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to liquidity standards (RCAP-LCR)

Table B

(1) Issue and/or relevant Basel paragraph number(s) ⁶	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
	the Swiss government are eligible as Level 1 assets. The amendment will become effective on 1 January 2018.		
Paragraph 52	Securities issued by Swiss cities, communities, and the ESG with a lower credit rating of A-, which are currently accepted as Level 2A assets, will no longer be eligible as of 1 January 2018.	FINMA Circ.-15/2 Mn 126, 127, and 128 LiqO Art. 15b	Circular published on 7 Dec 2017, effective 1 Jan 2018
Paragraph 96	For funding with options exercisable at the bank's discretion, reputational concerns should be considered and, in markets where the execution of such an option is expected, banks assume the execution for the LCR calculation.	FINMA Circ.-15/2 Mn 210.1	Circular published on 7 Dec 2017, effective 1 Jan 2018
Paragraph 141	FINMA will introduce a new marginal note to cover the requirement of the separation of customer cash balances arising from prime brokerage services from any required segregated balances related to client protection schemes and prohibits the netting of such balances against other customer balances.	FINMA Circ.-15/2 Mn 248.2	Circular published on 7 Dec 2017, effective 1 Jan 2018

Part B

Risk based capital (RCAP-capital)			
(1) Issue and/or relevant Basel paragraph number(s) ⁷	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report) ⁸	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification planned
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 have participated in the SIG-BB benchmarking exercise on that topic. Based on this study we found no evidence that the Swiss approach to defaulted assets under IRB would be in noteworthy deviation to the Basel standards.
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.	CAO revised, Art. 44a. Final regulation.	To implement the bank specific countercyclical buffer according to BCBS standards the CAO has been revised and the new Article 44a entered into force on 1st July 2016. Detailed technical regulation (FINMA Circular) on the computation are until end of January 2018 in the process of consultation. Publication is expected for 2018.

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Liquidity (RCAP-LCR)			
(1) Issue and/or relevant Basel paragraph number(s) ⁹	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification planned
75 and 76: deposit insurance	The Basel framework requires that stable deposits (receiving a run-off factor of 5%) are fully insured by an effective deposit insurance scheme. The Assessment Team believes that the particular feature of the Swiss deposit insurance scheme (a system-wide cap on the insurance payout) may imply that, in a stress situation, only a much lower amount than recorded as stable deposits could benefit from the deposit insurance scheme. This finding is assessed as material and, as such, could be reviewed in a future RCAP.	FINMA Circ.-15/2 Mn, 178-186. LiqO Annex 2 1.1.1.	No rectification planned for liquidity regulation.

⁹ Entries under this column were copied from <https://www.bis.org/bcbs/publ/d422.pdf> Annex 12



Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

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

- CAO (Capital Adequacy Ordinance):
<https://www.admin.ch/opc/de/classified-compilation/20121146/201607010000/952.03.pdf>
- FINMA-Circular 13/1:
https://www.finma.ch/de/~/_media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finma-rs-2013-01.pdf?la=de