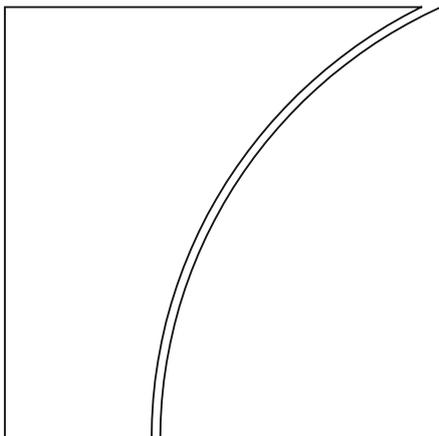


# Basel Committee on Banking Supervision



## Regulatory Consistency Assessment Programme (RCAP)

### Assessment of Basel III G-SIB framework and review of D-SIB frameworks – Switzerland

June 2016



BANK FOR INTERNATIONAL SETTLEMENTS

**Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity**

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## Glossary

BCBS	Basel Committee on Banking Supervision
C	Compliant (grade)
CAMELS	Capital, Asset quality, Management, Earnings, Liquidity and Sensitivity to risk
CET1	Common Equity Tier 1 Capital
CHF	Swiss franc
CRO	Chief Risk Officer
D-SIB	Domestic systemically important bank
EUR	Euro
FINMA	Swiss Financial Market Supervisory Authority
FSB	Financial Stability Board
G-SIB	Global systemically important bank
LC	Largely compliant (grade)
LPA	Loss potential analysis
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
RCAP	Regulatory Consistency Assessment Programme
RWA	Risk-weighted assets
SIB	Systemically important bank
SNB	Swiss National Bank
TBTF	Too-big-to-fail
ZKB	Zürcher Kantonalbank

## Executive summary

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report summarises the findings of the RCAP Assessment Team on the domestic adoption of the Basel globally systemically important bank (G-SIB) framework in Switzerland. The focus of the assessment was on the consistency and completeness of the regulations in Switzerland with the Basel Committee's minimum requirements. Issues relating to prudential outcomes, the capital levels of individual banks or the supervisory effectiveness of the Swiss authorities were not in the scope of this assessment.

The report also presents a review of the Swiss domestic systemically important bank (D-SIB) framework. Unlike the G-SIB assessment, this review was not graded, consistent with the high-level, principles-based nature of the Committee's D-SIB framework.

The RCAP Assessment Team was led by Mr Wayne Byres, Chairman of the Australian Prudential Regulation Authority. The Assessment Team comprised four experts drawn from the Basel Committee Secretariat, Brazil, India and Singapore. The main counterpart for the assessment in Switzerland was the Swiss Financial Market Supervisory Authority (FINMA). The assessment and review of the Swiss SIB frameworks was conducted alongside assessments and reviews in the other four jurisdictions that are currently home to G-SIBs: China, the European Union, Japan and the United States.<sup>1</sup>

The Swiss G-SIB framework came into force in March 2012 through the Swiss too-big-to-fail (TBTF) legislation. The framework has been periodically updated since and is currently being reviewed. There are currently two G-SIBs based in Switzerland: Credit Suisse and UBS.<sup>2</sup>

The G-SIB framework in Switzerland is assessed as compliant with the Basel G-SIB framework. This is the highest overall grade. The two subcomponents of the G-SIB framework, higher loss absorbency and disclosure requirements, are assessed as largely compliant and compliant respectively.

A revised TBTF framework will enter into force in Switzerland on 1 July 2016. The Assessment Team has not reviewed the revised regulations in detail but, based on discussions with the Swiss authorities, the new framework is likely to rectify several of the deviations identified with respect to the G-SIB framework.

Certain aspects of the G-SIB framework in Switzerland are more conservative than the Basel framework. This includes the minimum capital requirements and the capital conservation standards applied to Swiss G-SIBs. These aspects are listed in Annex 5 but have not been taken into account for the final assessment of compliance, as per the agreed assessment methodology.

The Assessment Team's review of the Swiss D-SIB framework found it to be broadly aligned with the Basel Committee's D-SIB principles. The Swiss framework, finalised in 2012 and in force since 2013, does not formally distinguish between G-SIBs and D-SIBs. The Swiss SIB framework is partially based on the G-SIB assessment methodology, but also supplements this with country-specific and, in some cases, bank-specific factors to identify SIBs. All designated SIBs must hold the same amount of CET1 (10%) as higher loss absorbency, as well as a bank-specific amount of "progressive" capital.

The RCAP Assessment Team acknowledges the professional cooperation received from the Swiss authorities during the assessment and review. The Assessment Team is hopeful that the RCAP exercise will

<sup>1</sup> The other reports are available on the BIS website at [www.bis.org/bcbs/implementation/l2.htm](http://www.bis.org/bcbs/implementation/l2.htm).

<sup>2</sup> See Financial Stability Board, *2015 update of list of global systemically important banks (G-SIBs)*, November 2015, [www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf](http://www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf).

contribute to the sound initiatives that have been undertaken in Switzerland and to strengthening further the prudential effectiveness and full implementation of these G-SIB and D-SIB frameworks.

## Response from the Swiss authorities

FINMA and SNB agree with the overall findings resulting from the assessment/review of the Swiss framework that is being applied to the Swiss G-SIBs and D-SIBs, respectively.

Whilst the assessment of the disclosure component is found to be compliant, the assessment of the G-SIB higher loss absorbency component is considered largely compliant. Two of the identified deviations relate to the fact that "... the Swiss regime does not adopt the bucketing approach to assign higher loss absorbency requirements and there are no CET1 incentives for the Swiss G-SIBs to avoid becoming more systemically important." (quoted from Section 1.3). In this context, FINMA would like to note that a revised and further strengthened Swiss TBTF framework, which will enter into force on 1 July 2016, addresses these deviations. Under the current framework these deviations were assessed as "not material".

The most important deviation, the only one being assessed "potentially material", concerns the restriction of dividends in case a bank were to have a capital buffer of less than is foreseen by the Basel III G-SIB bucketing approach. Indeed, there is no formal Swiss regulation on dividend restrictions, and therefore FINMA accepts the identified deviation as per the RCAP assessment methodology. With a minimum of 13% Tier 1 Capital, of which at least 10% is of CET1 quality and at most 3% in form of contingent convertible bonds with a trigger point of 7%, the Swiss G-SIBs are subject to higher capital/buffer standards as required under the Basel III G-SIB framework. Based on the latter, the two Swiss G-SIBs at present would need to fall below 8% CET1 (UBS) or 8.5% CET1 (Credit Suisse), respectively, before dividend restrictions would apply. In contrast, according to the Swiss TBTF regime, action is already required once the CET1 requirement falls below 10%, based on a range of available instruments, such as capital measures, limitation or reduction of risk-weighted assets or reduction of liabilities ("deleveraging"), reduction or prohibition of discretionary compensations, reduction or prohibition of share buy-backs and including dividend restrictions. These instruments provide FINMA with the flexibility required in such situations and they are chosen with care and following supervisory judgment, based on the severity of the capital deficit and current circumstances, rather than following the more mechanistic approach suggested by Basel. The available instruments are not listed in formal regulation, but are explicitly mentioned in Section 6.4.3 of the Federal Department of Finance's official commentary to the Swiss TBTF regulation.

We thank the RCAP Assessment Team very much for its detailed review of our Basel III G-SIB and D-SIB implementation and highly appreciate the team's expertise and professionalism, which contributed to an efficient assessment process.

# 1. G-SIB assessment

## 1.1 Context

### Introduction to the Basel G-SIB framework

The Basel Committee published the G-SIB framework in 2011 and updated it in 2013. It comprises an assessment methodology for global systemic importance, the amount of additional loss absorbency for G-SIBs and arrangements for phasing in the requirements. Based on the Basel Committee's assessment methodology, the Financial Stability Board (FSB) published a list of G-SIBs in 2011 and has updated it annually since.

The Basel framework is set out in *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, July 2013.<sup>3</sup> This document was the basis of the RCAP assessment. The RCAP Assessment Team focused on the key requirements of the G-SIB framework, namely (i) the level and composition of the higher loss absorbency requirement and coordination with other regulatory requirements; and (ii) the reporting requirements for and public disclosure by banks.

In the Basel G-SIB framework, the higher loss absorbency requirements come into effect between 1 January 2016 and 31 December 2018, in parallel with the Basel III capital conservation and countercyclical buffers. Disclosure requirements apply from 2014. The assessed jurisdictions implemented G-SIB frameworks between 2012 and 2016, with higher loss absorbency requirements being phased in by 2019.

### Status of Swiss implementation

After the 2007 financial crisis, Switzerland was one of the first jurisdictions to adopt a special regime for SIBs. The Swiss TBTF regime was introduced by way of an amendment to the *Banking Act*. The TBTF regime entered into force in March 2012. The implementing legislation in the *Capital Adequacy Ordinance* entered into force on 1 January 2013. Since then, there have been minor changes to the regime. The disclosure requirements were implemented by *FINMA-Circular 2008/22 Disclosure Banks*, issued in October 2014.

The Swiss authorities have recently reviewed the TBTF regime. An amendment to the current TBTF regime will be effective from July 2016.<sup>4</sup> As this framework was not finalised at the time of the assessment, the findings in this report relate only to the regime in force in April 2016.

### Regulatory system, model of supervision and binding nature of prudential regulations

In Switzerland, the basic framework for systemically important banks is established in primary legislation, which is enacted by the Federal Council. The Swiss National Bank (SNB) designates the systemically important banks, but does not make a formal distinction between a D-SIB and a G-SIB. FINMA is the competent supervisory authority for banks. It enforces prudential banking regulation, including the specific requirements for systemically important banks. It has the power to issue ordinances and circulars, both of which are legally binding and are eligible (alongside other primary legislation) for the RCAP assessment.

More information on the Swiss legal framework is included in Annex 2 and the Committee's RCAP assessment report of the implementation of the risk-based capital framework in Switzerland.<sup>5</sup>

<sup>3</sup> See [www.bis.org/publ/bcbs255.htm](http://www.bis.org/publ/bcbs255.htm).

<sup>4</sup> See [www.news.admin.ch/message/index.html?lang=en&msg-id=61681](http://www.news.admin.ch/message/index.html?lang=en&msg-id=61681).

<sup>5</sup> Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – Switzerland*, June 2013, [www.bis.org/bcbs/implementation/I2\\_ch.pdf](http://www.bis.org/bcbs/implementation/I2_ch.pdf).

## Structure of the banking sector

As of end-2015, there were 268 banks based in Switzerland, of which two were G-SIBs: Credit Suisse and UBS. These two banks accounted for about 45% of the Swiss banking system's total exposures. At end-2015, their average total capital ratio and Common Equity Tier 1 (CET1) ratios were 23.4% and 16.2%, respectively.

Both Swiss G-SIBs are international banking groups, with corporate, retail, investment banking, wealth management and asset management business lines. Credit Suisse is in Bucket 2 of the G-SIB list published in November 2015, attracting a 1.5% CET1 higher loss absorbency requirement. UBS is in Bucket 1 of the list, which gives rise to a 1.0% CET1 requirement.<sup>6</sup>

## 1.2 Scope of the assessment

### Scope

The RCAP Assessment Team has considered all binding documents that effectively implement the Basel G-SIB framework in Switzerland as of 1 April 2016 (the cut-off date for the assessment). The proposed revisions to the Swiss TBTF regime were not considered. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel G-SIB framework, to ascertain that all the required provisions have been adopted (the *completeness* of Swiss domestic regulation); and
- whether there are any differences in substance between the domestic regulations and Basel framework and, if so, their significance (the *consistency* of Swiss regulation).

Any identified deviation was assessed for its materiality (current and potential, or having an insignificant impact) by using both quantitative and qualitative information. In addition to the available data, the assessment relied on expert judgment on whether the domestic regulations met the Basel framework in letter and spirit.

Importantly, the assessment did not evaluate the adequacy of capital or resilience of the banking system in Switzerland or of the Swiss G-SIBs or the supervisory effectiveness of the Swiss regulatory authorities.

### Assessment methodology and grading

This cross-jurisdictional assessment followed the Committee's standard RCAP assessment process.<sup>7</sup> Before an assessment starts, the Committee agrees the principles and process for the type of assessment and the Team Leader agrees the specific arrangements for the particular exercise with counterparts in the assessed jurisdictions. The assessment itself comprises three phases: (i) self-assessment by the relevant authorities; (ii) an assessment phase; and (iii) a post-assessment review phase.

During the assessment phase, the RCAP Assessment Team compared the domestic regulations with the corresponding Basel framework. The Assessment Team identified observations for discussion with the relevant authorities. Following feedback from the Swiss authorities, the list of observations was developed into a structured list of preliminary findings. The materiality of quantifiable deviations was assessed primarily in terms of their current or, where applicable, potential future impact (or non-impact) on the capital ratios of the Swiss G-SIBs. The non-quantifiable aspects of identified deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the Swiss

<sup>6</sup> Financial Stability Board, *2015 update of list of global systemically important banks (G-SIBs)*, November 2015, [www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf](http://www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf).

<sup>7</sup> For more information on the RCAP, see Basel Committee on Banking Supervision, *Basel III Regulatory Consistency Assessment Programme (RCAP)*, October 2013, [www.bis.org/publ/bcbs264.htm](http://www.bis.org/publ/bcbs264.htm).

authorities. The Assessment Team also had regard to the impact of the deviations on the collective G-SIB scoring mechanism.

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the two sub-components of the Basel G-SIB framework and for the overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.<sup>8</sup>

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Annex 4.

The Basel G-SIB framework builds on other parts of the Basel capital framework. For example, the higher loss absorbency requirements for G-SIBs are defined with reference to the Basel III definitions of Common Equity Tier 1 and risk-weighted assets. All the assessed jurisdictions had previously been assessed on their implementation of the Basel risk-based capital standards. This assessment of G-SIB frameworks did not repeat previous assessments of the risk-based capital standards, nor did it penalise a jurisdiction a second time where the relevant part of the capital framework was found to be less than compliant in the risk-based capital assessment. Similarly, this assessment of G-SIB frameworks relied on the previous RCAP assessments of the bindingness of regulations in each jurisdiction.

Aspects of the Swiss rules go beyond the minimum requirements in the Basel framework. This includes the minimum capital requirements and the capital conservation standards applied to Swiss G-SIBs. Although these elements provide for a more rigorous implementation of the G-SIB framework in some respects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 5 for a listing of areas of super-equivalence).

### 1.3 Main findings

A summary of the main findings is given below.

Summary assessment grading Table 1

Key components of the Basel G-SIB framework	Grade
Overall grade	C
Higher loss absorbency	LC
Disclosure requirements	C

Compliance assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

<sup>8</sup> This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. For further details, see Basel Committee on Banking Supervision, *Basel III Regulatory Consistency Assessment Programme (RCAP)*, October 2013, [www.bis.org/publ/bcbs264.htm](http://www.bis.org/publ/bcbs264.htm).

## Main findings by component

### *Higher loss absorbency*

The implementation of the G-SIB higher loss absorbency requirements in Switzerland is considered largely compliant.

The higher loss absorbency requirements on the two Swiss G-SIBs were in excess of those in the Basel framework at the time of the assessment. However, the Assessment Team identified five deviations from the Basel framework. In particular, the Swiss G-SIB regime does not adopt the bucketing approach to assign higher loss absorbency requirements and there are no CET1 incentives for the Swiss G-SIBs to avoid becoming more systemically important. This different approach consequently results in a number of deviations in relation to the bucketing approach and the buffer requirements in the Basel framework. Further, the flat minimum 10% CET1 requirement on the Swiss G-SIBs could fall short of the 10.5% CET1 requirement imposed on G-SIBs in Bucket 5 under the Basel framework, albeit no Swiss G-SIB is currently in that bucket (or likely to be in the short to medium term).

The Federal Council has recently amended the Swiss G-SIB regime.<sup>9</sup> These amendments increase the minimum CET1 requirement in certain cases<sup>10</sup> and introduce CET1 incentives for the Swiss G-SIBs to avoid becoming more systemically important. The new regime will enter into force on 1 July 2016. It has not been taken into account in this assessment, as it was not effective at the cut-off date of 1 April 2016.

### *Disclosure requirements*

The implementation of the G-SIB disclosure requirements in Switzerland is considered compliant.

One deviation has been identified in relation to disclosures by G-SIBs that do not have a leverage ratio exposure measure in excess of EUR 200 billion; this is not material. The Assessment Team has one observation on the reference date for currency conversion for disclosure and reporting requirements; this does not affect compliance with the Basel framework.

## 1.4 Detailed assessment findings

The component-by-component details of the assessment of compliance with the Basel Committee G-SIB framework are given below. The focus of this section is on findings that are assessed to be deviating from the minimum requirements under the Basel framework and their materiality. Section 1.5 lists observations and other findings specific to implementation practices in Switzerland. Observations do not indicate sub-equivalence.

### Higher loss absorbency

<b>Section grade</b>	Largely compliant
<b>Summary</b>	Of the five deviations identified, four relate to the flat minimum CET1 requirement for G-SIBs under the Swiss framework. The higher loss absorbency requirements for Swiss G-SIBs were in excess of those in the Basel framework at the time of the assessment. However, the flat surcharge structure leads to deviations in the implementation of the bucketing approach and the buffer requirements in the Basel framework, though these are not considered material. One other deviation, on the capital conservation standards, is potentially material.

<sup>9</sup> See [www.news.admin.ch/message/index.html?lang=en&msg-id=61681](http://www.news.admin.ch/message/index.html?lang=en&msg-id=61681).

<sup>10</sup> A minimum CET1 requirement of above 10.5% will apply where a Swiss G-SIB increased its current size (ie leverage ratio exposure) by more than about 15%.

Basel paragraph number	46
Reference in the domestic regulation	Article 129 Capital Adequacy Ordinance
Findings	<p>The Basel framework for G-SIBs comprises five buckets. Bucket 5 requires higher loss absorbency of 3.5% CET1 and is set to be empty initially.</p> <p>Swiss G-SIBs are subjected to a flat minimum CET1 requirement of 10% under the Swiss TBTF regime. Were a Swiss G-SIB to be classified in Bucket 5, the 10% CET1 requirement under the Swiss regime would not be compliant with the total minimum CET1 requirement of 10.5% required under the Basel framework.</p> <p>This issue is somewhat mitigated by Article 4 of the Swiss Banking Act, which states, "In special cases, the FINMA may grant alleviations to the minimum requirements or define more stringent provisions." This allows FINMA to increase CET1 requirements. Further, Article 52 of the Banking Act requires the Swiss Federal Council to evaluate the Swiss TBTF framework every two years with a focus on comparability of the international framework. If a Swiss G-SIB is placed in Bucket 5, the Federal Council would be likely to adjust the Swiss requirements to ensure compliance with the Basel framework.</p> <p>The Assessment Team noted that Bucket 5 is currently not populated by any bank and that it was unlikely that a Swiss bank would be classified as a Bucket 5 G-SIB in the short to medium term. Therefore, this deviation is unlikely to be material.</p> <p>Although not eligible to be taken into account for the purposes of this assessment, FINMA informed the Assessment Team that, under the revised Swiss TBTF framework that will enter into force on 1 July 2016, Swiss G-SIBs will be subject to an increased minimum CET1 requirement. The new framework is likely to remove this deviation.</p>
Materiality	Not material
Basel paragraph number	47
Reference in the domestic regulation	Article 129 Capital Adequacy Ordinance
Findings	<p>The Basel framework adopted the bucketing approach for G-SIB higher loss absorbency requirements to provide incentives for banks to avoid becoming more systemically important.</p> <p>The Swiss TBTF regime does not adopt the bucketing approach to assign higher loss absorbency requirements for the two Swiss G-SIBs. Instead, the Swiss SIBs are subject to a flat requirement of 13%. This comprises a minimum CET1 requirement of 4.5% and a capital buffer of 8.5%, of which at least 5.5% must be met with CET1 capital and the remainder by high-trigger contingent convertible bonds. This results in a minimum CET1 requirement of 10%. While the two Swiss G-SIBs are subject to higher CET1 requirements under the TBTF regime vis-à-vis the Basel framework, the Assessment Team notes that there are no CET1 capital incentives under the TBTF framework for the two Swiss G-SIBs (currently in Buckets 1 and 2 under the Basel framework) to discourage them from becoming more systemically important.</p> <p>FINMA advised the Assessment Team that it was a conscious decision not to implement the bucketing approach, as the TBTF issue was particularly pronounced in Switzerland and adopting the Basel framework would have resulted in lower CET1 requirements for the two Swiss G-SIBs (at 8% and 8.5%). Moreover, the TBTF regime has a "progressive component", from 1% to 6% (or more), of low-trigger contingent convertible bonds, which provides a disincentive for the Swiss G-SIBs to grow in systemic importance.</p> <p>The Assessment Team noted that, while the Swiss TBTF regime does not include an incentive structure in relation to CET1 as prescribed in the Basel framework, it does provide a disincentive to increasing systemic importance. It also noted that FINMA could take action under Article 4 of the Swiss Banking Act or the domestic regulations could be amended to ensure appropriate compliance with the Basel framework if a Swiss G-SIB were likely to move into Bucket 5. On that basis, the Assessment Team concluded that the issue was unlikely to be a material deviation.</p> <p>Although not eligible to be taken into account for the purposes of this assessment, FINMA informed the Assessment Team that the revised Swiss TBTF framework, which</p>

	will enter into force on 1 July 2016, will include a CET1-driven incentive structure to discourage banks from becoming more systemically important.
Materiality	Not material
Basel paragraph number	53
Reference in the domestic regulation	Article 129 Capital Adequacy Ordinance
Findings	<p>The aim of the higher loss absorbency requirement in the Basel framework is to ensure that G-SIBs have a higher share of their balance sheets funded by instruments which increase the resilience of the institution as a going-concern. As such, G-SIBs are required to meet their higher loss absorbency requirements with CET1 capital only.</p> <p>However, there is a gap between the TBTF regime and Basel framework in the event that a Swiss G-SIB is assigned to Bucket 5, which requires a total minimum CET1 of 10.5%. Under such a scenario, the Swiss G-SIB will not be compliant with the Basel framework as the current TBTF regime only requires a flat 10% CET1 requirements and allows the last 0.5% to be met with high-trigger contingent convertible bonds.</p> <p>This issue is mitigated by Article 4 of the Banking Act, which states, "In special cases, the FINMA may grant alleviations to the minimum requirements or define more stringent provisions." This allows FINMA to increase CET1 requirements. Further, Article 52 of the Banking Act requires the Swiss Federal Council to evaluate the Swiss TBTF framework every two years with a focus on comparability of the international framework. If a Swiss G-SIB is placed in Bucket 5, the Federal Council would be likely to adjust the Swiss requirements to ensure compliance with the Basel framework. The Assessment Team considered there to be a low probability that a Swiss bank would enter Bucket 5 G-SIB in the short to medium term.</p>
Materiality	Not material
Basel paragraph number	57
Reference in the domestic regulation	Article 129 Capital Adequacy Ordinance, paragraphs 3 and 4
Findings	<p>The Basel framework requires restrictions on distributions in the event that a G-SIB breaches its higher loss absorbency requirements (ie it falls into its combined buffer). The restrictions on distributions increase at defined quartiles within the combined buffer. Also, if a G-SIB breaches the higher loss absorbency requirement, it will be required to return to compliance over a time frame established by the supervisor.</p> <p>There is no formal Swiss regulation mandating restrictions on dividend payouts when a bank's CET1 level falls below 10%, which is the higher loss absorbency requirement implemented for Swiss G-SIBs. However, FINMA advised the Assessment Team that, in practice, it would take the necessary steps to ensure immediate recreation of the buffer. This might include a complete stop on all dividends. As an example of its ability to take such steps, FINMA cited its Pillar 2 regulations applying to non-G-SIBs, which make reference to such measures. However, there are no explicit similar regulations for G-SIBs in the Swiss framework.</p> <p>As a practical matter, FINMA advised that it also has regular capital planning meetings with each of the G-SIBs (currently, at least quarterly). This ensures that a CET1 capital ratio in excess of 10% is respected at all times from a forward-looking perspective. Plans of banks that involve a bank falling below 10% CET1 are not accepted. FINMA advised that it would seek to ensure punitive measures would be in place before any violation of the higher loss absorbency requirement could take place. If there would be a loss such that CET1 ratios fell below 10%, FINMA noted that it would take supervisory measures to ensure that the 10% minimum is re-established as soon as possible.</p> <p>Furthermore, Article 129 states, "As a rule, the capital buffer must be available at all times. It may temporarily fall short if the bank incurs losses, but it must immediately be recreated once the bank is able to generate profits again." The Basel framework does not anticipate rebuilding and complying with the buffer only once a bank is able to generate profits again.</p>

	<p>Although not eligible to be taken into account for the purposes of this assessment, FINMA informed the Assessment Team that this conditionality on profits will not be part of the revised Swiss TBTF framework (entering into force on 1 July 2016).</p> <p>The Assessment Team noted that the higher CET1 requirements applying to Swiss G-SIBs mean that Swiss G-SIBs would have to suffer large capital losses before these differences in capital conservation standards may potentially result in a difference in practice between the Basel framework and the Swiss framework. For example, under the Basel framework, assuming a combined buffer of 3.5%, distribution restrictions would start when a firm's CET1 ratio fell below 8%. The minimum CET1 requirement for Swiss G-SIBs is 10%, so CET1 ratios would have to fall from 10% to 8% before there is a potential for a deviation between the interventions that the Basel framework expects and the Swiss framework.</p> <p>Nevertheless, as there is no explicit limitation on distributions in the Swiss framework, these differences in implementation could, in some circumstances, be potentially material.</p>
Materiality	Potentially material
Basel paragraph number	58
Reference in the domestic regulation	Art. 129 Capital Adequacy Ordinance
Findings	<p>The Basel framework provides a 12-month grace period should a bank progress to a bucket requiring a higher loss absorbency requirement. This includes the case where a G-SIB progresses to the (currently empty) fifth bucket.</p> <p>As noted in the findings above on paragraphs 46 and 53, there is no fifth bucket in the Swiss G-SIB framework. Consequently, there is no current regulation of FINMA that sets out a transitional period for meeting the corresponding higher loss absorbency requirement.</p> <p>Under Article 52 of Banking Act, the Swiss Federal Council must review the comparability of the TBTF provisions with the corresponding international standards and their degree of implementation abroad no later than three years after the entry into force of Sections V and VI of the amendment dated 30 September 2011, and after this, every two years. The Federal Council reports its findings to the Swiss Federal Assembly and highlights the possible need for amending laws and ordinances. As outlined above, the Assessment Team considered that there is a low probability that a Swiss bank will be classified as a Bucket 5 G-SIB in the near future.</p>
Materiality	Not material

## Disclosure requirements

<b>Section grade</b>	Compliant
<b>Summary</b>	One deviation was identified by the RCAP Assessment Team, which is not considered material.
Basel paragraph no	42
Reference in the domestic regulation	FINMA-Circular 2008/22 Disclosure Banks, margin no. 59.0
Findings	<p>The Basel framework determines that banks below the EUR 200 billion threshold that have been added to the sample by supervisory judgment or as a result of being classified as a G-SIB in the previous year would also be required to comply with the disclosure requirements. This is not required under the Swiss legal texts.</p> <p>In Switzerland, FINMA issues for each SIB a dedicated decree defining the relevant requirements. FINMA explains that disclosure requirements for the banks added to the sample by the supervisory judgment would be part of the TBTF Decree. The Assessment Team agrees with the Swiss authorities that there is a low probability in the near future of a Swiss bank being designated a G-SIB but falling below the EUR 200 billion</p>

	threshold, due to the size of the largest banks in Switzerland and the structure of the banking system.
Materiality	Not material

## 1.5 Observations specific to implementation practices in Switzerland

The following list describes the observations of the Assessment Team regarding Switzerland's implementation of the G-SIB framework. These observations are consistent with the Basel framework and are provided here for background information only.

### Disclosure requirements

Basel paragraph no	42
Reference in the domestic regulation	FINMA-Circular 2008/22 Disclosure Banks, margin no. 59.0
Findings	<p>The Basel framework determines that the exchange rate applicable at the financial year-end should be used for the reporting and disclosure of G-SIB indicators.</p> <p>The appropriate exchange rate for calculating the G-SIB indicators is not prescribed in the Swiss regulation. However, the Swiss regulation effectively cross-references the Basel instructions, which explain that the year-end exchange rate should be used. Also, the Swiss authorities consider it to be implicit in the reference to 31 December that the exchange rate on that date should be used.</p>

## 2. D-SIB review

### 2.1 Context

#### Introduction to the Basel D-SIB framework

The Basel Committee published its D-SIB framework in 2012.<sup>11</sup> The D-SIB framework comprises a set of principles on the assessment methodology and the higher loss absorbency requirement for D-SIBs. These principles allow appropriate national discretion to accommodate structural characteristics of domestic financial systems, including the possibility for countries to go beyond the minimum D-SIB framework. The Committee considers that it would be appropriate if banks identified as D-SIBs by their national authorities are required by those authorities to comply with the principles from January 2016 (in line with the phase-in arrangements for the G-SIB framework).

#### Status of Swiss implementation

The Swiss D-SIB principles are implemented via the *Banking Act*, applicable since March 2012, and supplemented by a number of Ordinances. The *Capital Adequacy Ordinance* entered into force in 2013. Further guidance is given to banks in corresponding messages and explanatory reports. The principles are public.

The SNB designates systemically important banks in Switzerland, though it does not make a formal distinction between a D-SIB and a G-SIB.<sup>12</sup> D-SIB capital requirements are enforced by the FINMA, as the banking supervisor.

#### Significance of D-SIBs in the banking sector

There are currently three designated D-SIBs in Switzerland, in addition to the two G-SIBs: PostFinance AG, Raiffeisen Group and Zürcher Kantonalbank (ZKB). They comprise around 13% of the total exposures of the Swiss banking system, 24% of domestic credit and 29% of domestic deposits (as at end-2015). None of the ownership rights in the three D-SIBs are publicly traded. PostFinance is a joint-stock company, indirectly in the full public ownership of the Swiss Confederation. ZKB has its allotted capital entirely provided by its owner, the canton of Zürich, a territorial state in the Swiss Confederation. The two G-SIBs in Switzerland are considered to be D-SIBs as well.

### 2.2 Scope and methodology of the review

The review of the D-SIB framework was done in parallel with the G-SIB assessment, but was not performed on a graded basis. Instead, the Assessment Team collected information on the implementation of the D-SIB framework in Switzerland (as well as in China, the European Union, Japan and the United States) and developed a qualitative narrative. This approach is consistent with the Basel Committee's objectives: valuable information is collected on implementation, while respecting the high-level, principles-based nature of the D-SIB framework.

<sup>11</sup> See Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012, [www.bis.org/publ/bcbs233.pdf](http://www.bis.org/publ/bcbs233.pdf).

<sup>12</sup> For the rest of this section, "G-SIB" is used to apply to the two Swiss SIBs designated as G-SIBs by the Financial Stability Board (FSB). "D-SIB" is used to apply to Swiss SIBs that have not been designated as G-SIBs by the FSB.

The RCAP Assessment Team has considered all binding documents that effectively implement the Basel D-SIB framework in Switzerland as of 1 April 2016 (the cut-off date for the assessment and review). These documents were compared to the Basel Committee's D-SIB principles.<sup>13</sup>

Differences between the principles and the Swiss framework were considered and discussed with FINMA and the SNB. The Assessment Team did not assess the materiality of these differences.

As for the G-SIB assessment, the D-SIB review did not evaluate the adequacy of capital or resilience of the banking system in Switzerland or of the Swiss D-SIBs or the supervisory effectiveness of the Swiss regulatory authorities.

## 2.3 Results of the review

### Assessment methodology

The *Banking Act* establishes a high-level framework for the assessment of systemic relevance, including motivation and criteria used in the assessment methodology (which itself is published in the *Banking Act*). It specifies that systemically important banks are those whose failure would cause "considerable damage" to the Swiss economy and financial system. As noted above, the *Banking Act* specifies that systemic impact should be considered in the context of the Swiss economy and financial system.

The *Banking Act* defines that the entities in scope of assessment are banks, financial groups and bank-dominated financial conglomerates. This includes foreign subsidiaries. Detail on the level of consolidation that should be considered is not explicitly specified.

The *Banking Act* outlines three high-level dimensions that determine a bank's systemic importance: size; interconnectedness; and substitutability. In particular, the *Banking Act* specifies four criteria:

- market share of system-relevant functions;
- amount of secured deposits (more precisely defined elsewhere in the *Banking Act*);
- ratio of a bank's total assets to Swiss gross domestic product; and
- a bank's risk profile, as determined by more detailed characteristics and risk metrics.

The SNB issues Decrees, which outline potential segments of domestic business lines that can be considered as systemically relevant, eg the domestic deposit and credit business, and payments. The specific indicators are similar to those outlined in the Basel Committee's G-SIB framework. The *Banking Act* and the corresponding message give guidance on the definition of the individual indicators, which break down the high-level dimensions. Furthermore, the message makes plain that the market share is the most important indicator for systemic importance. The SNB explains the details of the qualitative and quantitative assessment that led to designation in its Decrees.

The *Banking Act* and SNB Decrees do not specify the frequency of assessment or establish that a new assessment must be performed in case of important structural changes. However, the SNB continuously monitors developments in the banking sector. Any indication of a change in systemic importance would trigger a new assessment.

### Higher loss absorbency

The *Banking Act* highlights that the market shares in systemically important functions are the most importance indicators, and that the remaining indicators can further increase a bank's systemic

<sup>13</sup> Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012, [www.bis.org/publ/bcbs233.htm](http://www.bis.org/publ/bcbs233.htm).

importance. There is no differentiation in CET1 requirements for systemically important banks. Any bank-specific differentiation exists in the “progressive component” of capital requirements, which is in addition to the SIB requirement. This is outlined in the Capital Adequacy Ordinance.

SIBs must maintain a capital buffer of 8.5% of RWA on top of minimum capital requirements. This 8.5% includes a 3% SIB surcharge of CET1.<sup>14</sup> There is no overlap with any additional Pillar 2 requirements.

The requirements applicable to systemically important banks must be satisfied at the financial group level as well as at the level of each entity considered to be systemically important.

In addition to an increased risk-weighted capital buffer, SIBs are also subject to:

- requirements to maintain capital that:
  - shows a higher loss absorbency than that of non-systemically important banks, as defined by legal requirements;
  - significantly contributes to ensuring the continuation of system-relevant functions in the event of impending insolvency;
  - is of a quality that sets incentives for the banks to limit their degree of systemic importance as well as to improve their capacity to be restructured or liquidated in Switzerland and abroad; and
  - is measured for its risk-weighted assets on the one hand and for its non-risk-weighted assets (that may also contain off-balance sheet transactions) on the other hand.
- liquidity requirements that ensure a better absorbency of liquidity shocks compared to banks that are not systemically important and that can also service a bank’s outstanding payment commitments even in times of unusual stress;
- limits on counterparty risk and large exposures, so as to diversify risks;
- home-host cooperation agreements and crisis management groups; and
- requirements to design a bank’s emergency planning, ie recovery and resolution planning, with respect to structure, infrastructure, management and control as well as intra-group liquidity and capital flows in a way that it can be implemented immediately and ensures the continuation of the bank’s system-relevant functions in the event of impending insolvency.

<sup>14</sup> The 8.5% requirement includes 5.5% CET1 and 3% high-trigger conversion capital. The 5.5% CET1 requirement includes a 2.5% capital conservation buffer and the remaining 3% requirement is the effective SIB surcharge.

## Annexes

### Annex 1: RCAP Assessment Team, Review Team and Peer Review Board

#### Assessment Team Leader

Mr Wayne Byres	Australian Prudential Regulation Authority
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#### Assessment Team Members

Ms Fabiana Ladvoat Cintra Amaral Carvalho	Central Bank of Brazil
Ms Tamara Gomes	Basel Committee Secretariat
Mr Manoj Kumar Poddar	Reserve Bank of India
Mr Choon Mun Yong	Monetary Authority of Singapore

#### Supporting members

Mr David Orsmond	Reserve Bank of Australia
Ms Louise Eggett	Basel Committee Secretariat
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#### Review Team

Ms Valeria Salomao Garcia	World Bank
Mr Brad Shinn	Office of the Superintendent of Financial Institutions, Canada
Mr Rob Urry	South African Reserve Bank
Mr Sunny Yung	Hong Kong Monetary Authority

#### Peer Review Board

Mr Pascual O'Dogherty	Bank of Mexico
Mr Arthur Yuen	Hong Kong Monetary Authority
Mr Aditya Narain	International Monetary Fund

## Annex 2: Local regulations issued by the Swiss authorities to implement the Basel G-SIB framework

Overview of G-SIB rules and issuance dates

Table A.1

Domestic regulations	Version and date
Banking Act	March 2012
Capital Adequacy Ordinance	January 2013, as amended
FINMA Circular 2008/2 Disclosure Banks	Issued 29 October 2014

Source: FINMA.

Note: Although not taken into account for this assessment, the Federal Council amended the TBTF regime in May 2016. The revised framework, implemented by amendments to the regulations to the Banking Act and the Capital Adequacy Ordinance, will enter into force on 1 July 2016.

Hierarchy of Swiss laws and regulatory instruments

Table A.2

Level of rules (in legal terms)	Type
Federal Constitution	
Federal Acts (primary legislation)	Enacted by Parliament
Federal Council ordinances (primary legislation)	Enacted by the Federal Council, where empowered to do so by the Constitution or an Act
FINMA ordinances (primary legislation)	Enacted by FINMA, where empowered to do so by an Act or Federal Council ordinance
FINMA Circulars (secondary legislation)	Issued by FINMA
Compulsory self-regulation (secondary legislation)	Issued by self-regulatory organisations with a mandate from the legislator
Tertiary legislation	Issued by federal authorities that act to fulfil a public-law duty

Source: *RCAP Assessment of Basel III regulations – Switzerland*, June 2013, [www.bis.org/bcbs/implementation/I2\\_ch.pdf](http://www.bis.org/bcbs/implementation/I2_ch.pdf).

The RCAP assessment of Switzerland's implementation of the Basel capital standards considered the binding nature of regulatory documents in Switzerland. The findings of that assessment are given in Annex 4 of the previous RCAP assessment report.<sup>15</sup> This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous RCAP findings.

<sup>15</sup> Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – Switzerland*, June 2013, [www.bis.org/bcbs/implementation/I2\\_ch.pdf](http://www.bis.org/bcbs/implementation/I2_ch.pdf).

## Annex 3: Financial indicators of the Swiss banking system, G-SIBs and D-SIBs

### Overview of the Swiss banking system and systemically important banks

As of 31 December 2015

Table A.3

Size of banking system (at consolidated level, EUR billions)	
Total assets all banks operating in the jurisdiction (including off-balance sheet exposures)	4,122
Total assets of all G-SIBs	1,887
Total assets of all designated D-SIBs	405
Number of banks	
Number of banks operating in Switzerland	268
Number of G-SIBs	2
Number of designated D-SIBs	3
Capital adequacy of G-SIBs (EUR billions, per cent)	
Total regulatory capital	110
Total CET1 capital	76
Total risk-weighted assets	469
Capital adequacy ratio (weighted average)	23.4%
CET1 ratio (weighted average)	16.2%
CET1 ratio (minimum amongst sample)	14.2%
CET1 ratio (maximum amongst sample)	19.0%
Capital adequacy of D-SIBs	
Total regulatory capital	29
Total CET1 capital	26
Total risk-weighted assets	164
Capital adequacy ratio (weighted average)	17.5%
CET1 ratio (weighted average)	15.8%
CET1 ratio (minimum amongst sample)	14.6%
CET1 ratio (maximum amongst sample)	19.5%

Entries for D-SIBs exclude designated G-SIBs where these are also considered D-SIBs at the consolidated level in the jurisdiction where they are subject to consolidated supervision.

## Indicators of the systemic importance of Swiss banks

As of 31 December 2014, expressed in EUR billions and per cent

Table A.4

Total exposures	1,903	2.6%
Intra-financial system assets	345	4.4%
Intra-financial system liabilities	278	3.1%
Securities outstanding	415	3.4%
Total payments	46,874	2.2%
Assets under custody	2,931	2.5%
Underwriting activity	313	5.9%
Notional amount of over-the-counter derivatives	60,237	9.5%
Trading and available-for-sale securities	160	4.9%
Level 3 assets	43	6.5%
Cross-jurisdictional claims	1,019	5.9%
Cross-jurisdictional liabilities	1,031	6.6%

The indicators of systemic importance are based on the total sample of banks in Switzerland used for the Basel Committee and the FSB's G-SIB identification data collection exercise. This comprises all banks with a leverage ratio exposure measure exceeding EUR 200 billion or which were designated as G-SIBs in the previous year's G-SIB assessment.

## Annex 4: Materiality assessment

The assessment of materiality distinguished between quantifiable and non-quantifiable gaps. The Assessment Team attempted to quantify the impact of all quantifiable gaps for each G-SIB. In total, six gaps were assessed based on information provided by the Swiss authorities. The Assessment Team also had regard to the impact of the deviations on the collective G-SIB scoring mechanism.

In cases where the computation of the impact was not straightforward, the computation erred on the conservative side. Where no data were available to quantify gaps, the Assessment Team relied on expert judgment. Following this approach, the Assessment Team determined whether gaps were likely to be not material, potentially material or material.

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Number of gaps by component

Table A.5

Component	Not material	Potentially material	Material
Higher loss absorbency	4	1	0
Disclosure requirements	1	0	0

## Annex 5: Areas where the Swiss requirements are stricter than the minimum requirements in the Basel G-SIB framework

In two places, the Swiss authorities believe that they have adopted a stricter approach than the minimum requirements in the Basel G-SIB framework. Alternatively, they consider that they have simplified or generalised an approach in ways that do not necessarily result in stricter requirements under all circumstances, but never result in less rigorous requirements than the Basel framework. The following table describes these areas, which relate to the higher loss absorbency requirements for Swiss G-SIBs.

The information in this annex has been provided by FINMA and has not been cross-checked or assessed by the RCAP Assessment Team. These areas have not been taken into account as mitigating factors in the overall assessment of compliance.

Areas of super-equivalence in the Swiss G-SIB framework

Table A.6

Basel paragraph(s)	Domestic rule-making	Additional requirements
46	<i>Capital Adequacy Ordinance</i> , Articles 128 and 129, paragraphs 2 and 3	Swiss G-SIBs must hold CET1 capital of at least 10%, which is, in the Basel framework, only reached in the empty bucket. The higher loss absorbency requirement is supplemented with the progressive capital component, which changes in proportion to growth in the overall size of a Swiss G-SIB and in relation to growth in the market share of Swiss deposit-taking or loan provision.
46, 57	<i>Capital Adequacy Ordinance</i> , Article 129, paragraph 3 FINMA Circular 11/2, margin number 24–29	The 10% (13%) CET1 flat-rate requirement for the Swiss G-SIBs is, notwithstanding Article 129 paragraph 3, designed as a hard lower limit (intervention level). FINMA has a broad variety of measures available to make sure that the G-SIBs maintain or restore CET1 levels of at least 10%. This is stricter than the Basel framework's approach, which sets out four bands within the buffer with increasing restrictions on distributions only if the CET1 ratio drops below 8% (UBS) or 8.5% (Credit Suisse).

## Annex 6: FINMA summary of its Pillar 2 supervisory review process, as applied to G-SIBs and D-SIBs

The higher loss absorbency requirement for G-SIBs incorporates elements of both Pillar 1 and Pillar 2. The indicator-based measurement approach, the pre-specified requirements for banks within each bucket and the fixed consequences of not meeting the requirements can be considered close to Pillar 1. However, the use of supervisory judgment to finalise the allocation of individual banks to buckets can be considered close to Pillar 2. In some jurisdictions, Pillar 2 may adapt to accommodate the existence of the G-SIB higher loss absorbency requirements, but capital meeting the G-SIB higher loss absorbency requirement should not be used simultaneously to meet Pillar 2 requirements relating to other risks.

In Switzerland, the TBTF regime is a Pillar 1 regime. Article 45 of the *Capital Adequacy Ordinance* enables FINMA to require Pillar 2 capital add-ons in addition to the Swiss TBTF capital requirements. However, FINMA generally has a preference for Pillar 1 measures. Capital buffers required under the TBTF regime, including the G-SIB surcharge, cannot be used to meet any Pillar 2 requirement.

Generally, FINMA follows a risk-based supervision process, which is based on a CAMELS approach (dynamic rating system in addition to more static categorisation). A CAMELS system rates banks by six criteria: Capital, Asset quality, Management, Earnings, Liquidity and Sensitivity to risk. For both Swiss G-SIBs, FINMA applies a number of supervisory tools such as (among others) quarterly capital planning meetings, quarterly meetings with the Group Chief Risk Officer (CRO). Besides, there are regular meetings with divisional CROs. Moreover, FINMA performs a series of in-depth supervisory reviews on specifically selected risk topics, and FINMA runs semiannual stress-testing exercises with both G-SIBs. Based on all these tools' outcomes FINMA basically assesses on an ongoing basis the appropriateness of each bank's (quantitative) actual capital and liquidity levels and their requirements.

The following paragraphs provide an overview of how Switzerland complies with the four principles within the Basel Pillar 2 framework.<sup>16</sup>

*Principle 1: Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.*

- FINMA requires the G-SIBs to run a (generally) annual capital planning process where senior management gives a detailed view on the bank's capital situation over the past months as well as the planned future activities (with a planning horizon of three years). G-SIBs are required to update their forecasts if underlying assumptions on economic developments do not materialise (eg financials do not evolve according to plan).
- FINMA requires both G-SIBs to run a semiannual firm-wide loss potential analysis (LPA) where banks need to cover all relevant risk categories. This is generally based on a macro-economic stress scenario. This is also seen in relation to the bank's internal stress-testing capabilities which then feed back into the capital planning process.
- FINMA requires both G-SIBs to report in dedicated quarterly Pillar 1 and Pillar 2 dialogue meetings on the methodology developments, progress and changes. In the Pillar 2 dialogue meetings, the bank reports on the various internal applications of the risk measurement tools (eg

<sup>16</sup> Basel Committee on Banking Supervision, *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version*, Part 3: The Second Pillar – Supervisory Review, June 2006.

scenario-based stress testing, analytical economic capital consideration) such as risk appetite or internal capital adequacy.

- FINMA undertakes various thematic on- and off-site reviews, usually on a horizontal basis by benchmarking both G-SIBs in Switzerland.

*Principle 2: Supervisors should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.*

- There is an established monthly exchange on the contents of the group risk report, along the questions addressed by FINMA.
- Regular Pillar 1 and Pillar 2 dialogue meetings with FINMA's corresponding specialists and the bank's subject matter experts.
- FINMA has established a semiannual stress testing exercise (FINMA's LPA). Various post-stress quantities (eg CET1, Leverage Ratio, Net Stable Funding Ratio) are looked into in this process and compared with the firm's own post-stress impacts.
- FINMA runs several regular meetings where capital adequacy (respectively compliance with regulatory capital ratios) represents a very important item on the respective agendas as well as dedicated capital planning meetings on group and legal entity level.
- Regular supervisory dialogue with the chief executive officer, business heads and line-of-defence heads (usually Management Board and one level below, general focus on internal control functions such as finance, risk, compliance, legal and internal audit).
- Regular supervisory dialogue with president of board of directors and risk and audit committee heads.
- Recovery and resolution planning.
- International cooperation with host authorities on an ad hoc basis and institutionalised (two core colleges, one general college, one college dedicated to the Asia-Pacific region and two crisis management colleges).
- Collaboration with statutory audit firm for certain streamlined supervisory tasks and additional thematic audits (recall that FINMA mandates the statutory audit firm to act as an extended supervisory arm as part of the Swiss banking supervision system).
- FINMA establishes an annual Assessment Letter (backward-looking as well as material forward-looking elements with action points and supervisory focus for the current year), in which naturally the most relevant aspects are listed, thus gaining the highest attention within the bank. Capital-related topics play a crucial role in this letter.

*Principle 3: Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.*

- The Swiss TBTF regulation requires Swiss SIBs to hold a higher aggregate amount of minimum regulatory capital ratios plus a capital conservation buffer level as under international standards. In terms of CET1, an aggregated amount of at least 10% is required. A further 3% is required, which might be held in form of contingent convertible bonds with a high trigger point (7% CET1) or again CET1.
- Moreover, if FINMA encounters in its supervisory processes, as described above, shortcomings or deficiencies, it may impose capital add-ons or RWA multipliers; in other words FINMA would require additional capital, typically under Pillar 1, but can do so under Pillar 2 as well.

*Principle 4: Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.*

- As mentioned above, FINMA applies a CAMELS approach to rate its banks. The supervisory rating determines the depth of supervision. A more intense supervision would clearly be applied for institutions which operate near the minimally required capital levels.
- In such cases, there is a more intense exchange with the bank and the statutory audit firm.
- As a result, reviews could be conducted by the audit firm or by the authority. Alternatively, the bank could be asked to run a topic assessment.
- Typically, meetings with members of the board of directors (including the president of the board) are arranged to discuss and define according actions.
- Concrete actions would range from qualitative requirements (such as frequent reporting, eg daily liquidity reporting) to quantitative requirements, such as increased capital and liquidity requirements (eg a specific threshold on the Liquidity Coverage Ratio of more than 100%), or with respect to an internal measure (eg holdings of specific liquid assets). Capital actions could be ordered by raising new capital and/or restricting dividend payments.