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Introductory remarks by Fritz Zurbrügg

In my remarks today, I will begin with the current assessment of the situation at the big banks and domestically focused banks. I will then go on to discuss the significance of climate change for financial stability. The final part of my speech will focus on the issuance of the new banknote series, which was completed in September.

Big banks

I will start with the situation at the big banks. Both Credit Suisse and UBS have made significant progress since the 'too big to fail' regulations were introduced almost ten years ago. They have strengthened their capital bases, reduced their risk positions and implemented key organisational measures as regards crisis management..

With respect to resilience, Credit Suisse and UBS have already achieved their targets. Both banks have increased their regulatory capital to the target levels and thus meet all final requirements on a consolidated basis. Compliance with the requirements of the 'too big to fail' regulations is necessary to ensure adequate resilience of the two Swiss big banks. This is confirmed by our loss potential analyses of both banks as well as historical loss experience during the last financial crisis.

With respect to resolution, the statutory deadline for finalising the Swiss emergency plans is the end of this year. In their plans, Credit Suisse and UBS have to demonstrate that they would be able to maintain their systemically important functions without interruption in a crisis. FINMA, as the competent authority, is currently checking whether the submitted plans meet this requirement.

As for the overall assessment of the 'too big to fail' regulations, the SNB shares the Federal Council's view that the Swiss regulatory approach is consistent with international developments and that no fundamental change to this approach is necessary.[1] At the same time, the SNB also shares the view that there is a need for selective adjustments. This applies in particular to funding in resolution, which is aimed at ensuring that the big banks have sufficient liquidity reserves in a crisis. To this end, together with FINMA and the SNB, the Federal Department of Finance is reviewing whether current liquidity requirements for the two big banks are sufficient to cover estimated funding needs in the event of a crisis, or whether regulatory adjustments are necessary.

Domestically focused banks

I shall now turn to the domestically focused banks. There has been little change in their situation since the Financial Stability Report was published in June.

Interest rate margins of domestically focused banks remain under pressure and declined further in the first half of the year. Many banks have responded to this challenge in recent years by making efficiency improvements, for instance by digitalising their business processes. At the same time, numerous banks have increased their risk appetite, especially in mortgage lending. This development can also be seen in the course of 2019 to date. Affordability risks of new mortgages financing residential investment property are high and have risen further.

These developments have taken place against a background of persistent imbalances in the mortgage and real estate markets. Both mortgage-lending volume and prices for single-family houses and apartments continued to rise at a moderate rate in 2019. Although prices of residential investment property have stagnated of late, there is still a risk of a price correction in this segment in particular. On the one hand, this is due to the sharp price increases in previous years. On the other, larger numbers of vacant dwellings suggest that brisk construction activity in rental apartments may have led to an oversupply.

Despite banks' high risk appetite and the persistent imbalances in the markets, SNB stress tests suggest that the resilience of the domestically focused banks remains adequate overall. Thanks to robust capitalisation, most of these banks would be able to absorb the losses incurred in adverse scenarios. Given the risks I just mentioned, this is positive. It is crucial for the stability of the financial system that banks continue to hold sufficient capital to be able to cover the risks on their books.

Ongoing pressure on margins means that the incentive for domestically focused banks to take on risks remains high. This applies to mortgage lending in particular. The revised self-regulation rules for banks in the residential investment property segment, which come into force at the beginning of 2020, should help to prevent a further build-up of risks in this segment. The SNB will closely monitor the effectiveness of the revised self-regulation. In

[1] Federal Council (2019): *Bericht des Bundesrates zu den systemrelevanten Banken*. www.admin.ch/opc/de/federal-gazette/2019/5385.pdf

parallel, it will continue to regularly reassess the need for an adjustment of the countercyclical capital buffer.

Climate change and financial stability

Let me now turn to climate change, a subject already addressed by my colleague Thomas Jordan. Climate change can pose longer-term risks to financial stability.

There are primarily two ways in which climate risks can affect the financial system. One is through the increase in the frequency and severity of natural disasters with all their consequences, and the other is through changes to climate policy and to the corresponding regulations.

It is the responsibility of individual financial system participants to fully understand climate risks relevant to them and to correctly assess the potential consequences from a business perspective – just as with other risks. For its part, the SNB is focusing on how climate risks could impact on the stability of the Swiss banking system as a whole, as well as on systemically important financial market infrastructures.

Currently, the SNB considers the likelihood of risks linked to climate change threatening the stability of the banking system as a whole to be low. In the case of financial market infrastructures, climate risks are minimised, for example, by stipulating that technical facilities be distributed over different locations.

The significance of climate risks to financial stability may change over time. The SNB therefore considers it a priority to continuously monitor developments and review its assessment.

Completion of the ninth banknote series

To finish, let me turn to a very different topic – the issuance of the ninth banknote series. The development of the new banknotes was a complex, long-term project with exacting design and production requirements. The 100-franc note, which entered circulation on 12 September 2019, was the sixth and final denomination of the SNB's new banknote series. Since the issuance of the first of the new banknotes, the 50-franc note in April 2016, feedback on the new banknotes has been very positive. The new series has been well received by the public. The new substrate Durasafe® has also proven a success. Preliminary evaluations suggest that this substrate should ensure a longer lifespan for the banknotes.

The issuance of modern and forgery-proof banknotes is a central task of the SNB. It is important to us that we are able to meet the expectations of the Swiss population. The new banknotes use state-of-the-art technology, and are robust and easy to handle. The entire logistical processes, including the modification of ATMs to accommodate the new notes, also proceeded without significant problems.

The eighth banknote series will continue to be legal tender until further notice. The SNB plans to announce the recall date for the eighth-series notes in the course of 2020. The old notes will lose their status as legal tender from the date of recall, although it will still be possible to exchange them at the SNB or at one of our agencies. The partial revision of the Currency and Payment Instruments Act (CPIA), recently adopted by parliament, abolishes the previous deadline for exchanging banknotes with effect from 1 January 2020. It thus allows for banknotes from the sixth series, issued in 1976, and all subsequent series to be exchanged at any time.