FINMA undergoes inspections

In 2013, Switzerland underwent two international audit programmes. The country received high marks in the BCBS Regulatory Consistency Assessment Programme (RCAP), which examined the status of its implementation of Basel III. The results of the IMF Financial Sector Assessment Programme (FSAP) are expected to be released in spring 2014.

Under the RCAP, the BCBS examines whether its member states have implemented the Basel III minimum standards. For Switzerland, this process took place in the first half of 2013, and resulted in the country being declared 'compliant' – the highest grade and thus a seal of approval for Switzerland's financial centre.

From Basel I to Basel III

The ability to consistently gauge the solvency of banks on the basis of a small number of regulatory ratios is of central importance, especially for creditors. This requires uniform minimum standards of the kind approved at the international level by the BCBS. The first version of these standards dates back to 1988 and is known as Basel I.

The follow-up to this, Basel II, came into effect in 2007. Since then, banks have been able to employ their own model-based approaches using their own ratings and risk parameter estimates, instead of a standard approach, to determine their capital requirements for credit risks and operational risks.[17] Model approaches for market risks had already been introduced as an extension of Basel I. Basel III came into force in 2013 and in particular imposes more stringent requirements in terms of eligible capital.

Ensuring comparability

The experience of the 2007–2008 financial crisis in particular led to the informativeness and comparability of published regulatory ratios being questioned. Inconsistent quantifications can be attributed to differences in accounting standards and discrepancies in the implementation of the Basel minimum standards by various jurisdictions. In certain cases, a differing interpretation of the rules by the banks or different internal modelling approaches for market and credit risks can lead to a lack of uniformity in assessments. By means of the RCAP, the BCBS aims to strengthen the resilience of the global banking system, maintain market confidence in regulatory ratios and provide a level playing field for banks operating internationally. The BCBS is pursuing three key objectives:

– The latest set of regulations, Basel III, should be adopted as soon as possible for all banks in a given country.
– National implementation should be consistent with the Basel III minimum standards.
– The regulatory ratios calculated by the banks should also be made comparable as soon as possible.

The BCBS has been carrying out audit programmes to this effect in all its member states since 2012. In 2013, it was Switzerland's turn to have its implementation of Basel III reviewed. The BCBS assessed the Capital Adequacy Ordinance (CAO) and a number of FINMA circulars for compliance with the Basel III minimum standards. An RCAP investigation of Switzerland's implementation of the Basel III liquidity requirements will be carried out at a later date.

Few deviations from the international standard

In its report, the BCBS presented a very positive picture of the status of Swiss regulation overall. Of 14 areas assessed, the BCBS designated 11 as fully Basel III compliant. In three areas covering certain issues related to eligible capital, the design of the IRB approach and disclosure, the BCBS identified some minor deviations from the Basel standards and therefore awarded these areas the second-best grade of 'largely compliant'. However, most of these points are merely formal in nature. The very positive overall rating was subject to the proviso that Switzerland takes timely action to clear up a small number of essentially uncontentious discrepancies in the CAO and FINMA circulars. FINMA explained the upcoming amendments in an FAQ on Basel III published in

[17] Internal ratings-based approach (IRB approach), see Glossary, p. 112.

May 2013. The circulars concerned[18] were subsequently modified and came into force on 1 January 2014. The transitional period runs until 30 June 2014. The small number of changes to the CAO, which have no material impact, were submitted for consultation in the fourth quarter of 2013.

Switzerland also assessed by the IMF

From May to December 2013, Switzerland underwent the IMF's Financial Sector Assessment Programme (FSAP), which aims to assess the stability of a country's financial sector and evaluate the quality of its regulation and supervision. It therefore adopts a broader perspective than the RCAP, and is less focused on individual areas. In addition to looking at regulations, it also examines supervisory practice in greater detail. The last time this extensive review programme was carried out in Switzerland was in 2007. The results of the FSAP are expected to be published in early 2014.

All financial centres that meet the IMF definition of systemic importance are obliged to undergo the FSAP on a regular basis. Participation in the programme is also a prerequisite for membership in the FSB. The FSAP and its reform recommendations are therefore accorded high importance internationally.

Focus on supervision and regulation

The FSAP chiefly examines whether and how banks, insurers and markets comply with international regulatory and supervisory standards.[19] The assessment of Switzerland also considered the risks and vulnerability of the Swiss financial centre and carried out stress tests in the banking and insurance sectors. Finally, Switzerland had also declared its willingness to act as pilot country in undergoing a review of the new FSB rules[20] on the resolution of banks.

Working with the FDF, the SNB, other authorities and a number of representatives of the private sector, FINMA played a key role in supplying the information required for the FSAP, using extensive self-assessments and responses to FSAP questionnaires submitted in advance. Together with the results of the stress tests, this then formed the basis for numerous interviews conducted by the IMF delegation with representatives of FINMA, other Swiss authorities and the private sector.

Policy recommendations to follow in 2014

Visits by the IMF delegation took place over a total of seven weeks in September, October and December 2013. In the interviews carried out in September, the IMF representatives chiefly addressed compliance with international supervisory and regulatory standards. The delegation also conducted technical discussions on the performance of stress tests. Switzerland's compliance with the new FSB rules on the resolution of banks was discussed in October, while in December the IMF representatives discussed the policy recommendations, stress test results and a small number of other issues arising from the FSAP. The IMF's reports on the final results of the FSAP will not be released until after publication of FINMA's 2013 Annual Report, so it is not possible to make any definitive statements at this stage.

[18] See section on Changes in banking regulation, p. 49.
[19] BCBS Core Principles for Effective Banking Supervision (see http://www.bis.org/publ/bcbs230.pdf), IAIS Insurance Core Principles (see http://www.iaisweb.org/ICP-online-tool-689), IOSCO Objectives and Principles of Securities Regulation (see http://www.iosco.org/library/pubdocs/pdf/IOSCOPD154.pdf).
[20] Key Attributes of Effective Resolution Regimes for Financial Institutions (see http://www.financialstabilityboard.org/publications/r_111104cc.pdf).