Evaluation of the financial centre in Switzerland

In May and September 2014, the results of the Financial Sector Assessment Program were published by the International Monetary Fund.

As an IMF member and home to a major financial centre, Switzerland is obliged to participate regularly in the Financial Sector Assessment Program (FSAP). This is also a requirement for membership in the Financial Stability Board (FSB).

The FSAP is designed to assess the stability of a financial centre and issue any recommendations needed to strengthen it. The IMF also evaluates and rates compliance with the principles on financial market regulation and supervision prescribed by international standard-setting bodies (BCBS, IAIS and IOSCO). These three sets of principles, which are regularly revised, comprise between 26 and 37 requirements, with countries being graded on their level of compliance.

The IMF published a report on financial stability, an overview report and three detailed reports on compliance with international regulatory and supervisory standards for banks, insurance companies and markets. They were accompanied by four thematically focused technical notes on stress testing in the banking system, systemic risk and contagion analysis, macroprudential supervision and financial market infrastructures.[20]

IMF assessment of financial stability
In general, the assessment of Switzerland was positive. The IMF considers the Swiss financial sector to be essentially robust and stable, even in severe stress scenarios. Dangers were identified as a result of the low interest rate environment and the associated interest rate risk, imbalances in the real estate market, the US tax issue and possible hindrances to cross-border market access. Despite measures taken by the large banking groups to reduce risk and increase their capital base, the IMF recommended a further reduction in their leverage ratios, which are high compared with other international big banks.

IMF assessment of the regulatory framework
Switzerland's regulation and supervision of banks and insurance companies complies to a high degree with the relevant international principles. The IMF praised Switzerland's pioneering role in many areas of financial market regulation. It welcomed the introduction of the countercyclical capital buffer and other measures to limit risks in the real estate market, the introduction and ongoing implementation of the "too big to fail" regime, and the Swiss Solvency Test (SST) for insurance companies.

However, it identified room for improvements in client protection. It also recommended making independent asset managers and insurance intermediaries subject to supervision, stricter rules for issuers, and more stringent disclosure obligations for securities and structured products. The experts identified weaknesses in market regulation, but acknowledged that the legislative efforts to create a Financial Services Act and Financial Market Infrastructure Act contain many new rules that should improve compliance in these areas.

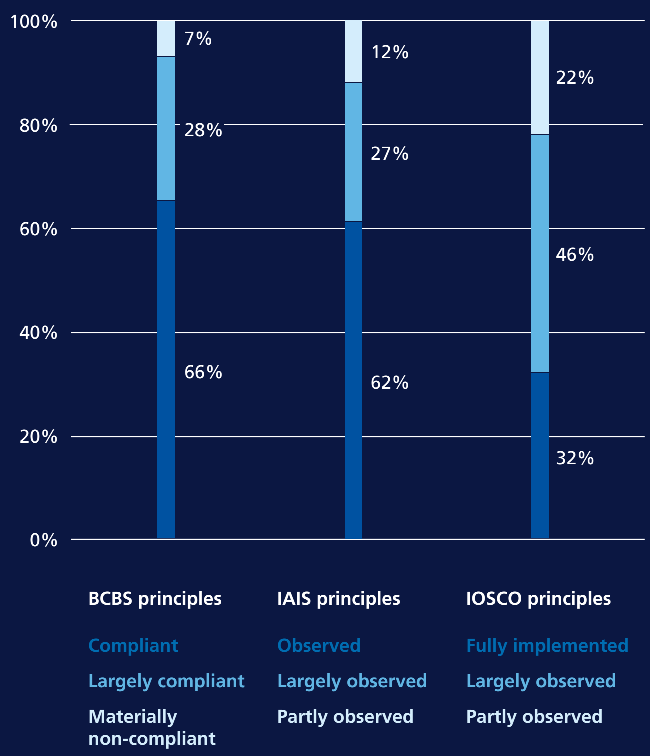
The IMF noted that Switzerland pursues a principles-based regulatory approach, which means that the density and level of detail in regulation are very low by international standards.

[20] See https://www.imf.org/external/np/fsap/fsap.aspx?CountryName=Switzerland.

IMF assessment of supervision

The IMF offered a positive assessment of the progress made by FINMA since its creation, as well as the level and quality of its supervision. According to the assessment, FINMA's staff have a high level of expertise and its off-site work is of high quality. The IMF acknowledges the advantages of the Swiss supervisory approach, under which key elements of supervision are outsourced to audit firms. It recommends greater use of on-site supervisory reviews, however, to reinforce the approach, as well as extra resources, especially for supervising medium-sized banks and insurance companies, and stronger leadership by FINMA of the audit firms involved in regulatory audits. FINMA greatly appreciated the professional exchange with the IMF specialists and is intensively addressing their proposed improvements.

IMF rating of compliance with international principles in Switzerland



BCBS assessment of Basel III implementation

Switzerland's implementation of Basel III was assessed in 2013 in the BCBS Regulatory Consistency Assessment Programme (RCAP). Further important jurisdictions, such as the EU and US, were assessed in 2014. The comparison below gives an overview of the assessment outcomes to date and shows that Switzerland is well placed in the midfield.

Country	RCAP report dated	Overall assessment	Assessment of components of the Basel III framework: Scope of application	Transitional arrangements	Definition of capital	Capital buffers	Credit risk: standardised approach	Credit risk: IRB approach	Credit risk securitisation framework	Credit risk: counterparty risk	Market risk: standardised measurement method	Market risk: internal models approach	Operational risk: standardised approaches	Operational risk: advanced measurement approaches	Pillar 2 requirements	Pillar 3 disclosure requirements	Number of completed or approved adjustments to national Basel III implementation
Japan	Oct. 12	C	C	C	LC	NYA	C	C	LC	C	LC	C	C	C	C	C	5
Singapore	Mar. 13	C	C	C	C	C	LC	LC	C	C	C	C	C	C	C	C	15
Switzerland	June 13	C	C	C	LC	C	C	LC	C	C	C	C	C	C	C	LC	23
China	Sept. 13	C	C	C	C	C	LC	C	C	C	C	C	C	C	C	LC	90
Brazil	Dec. 13	C	C	C	C	LC	LC	C	C	C	C	C	C	C	LC	C	42
Australia	Mar. 14	C	C	C	LC	C	LC	C	C	C	C	C	C	C	C	C	14
Canada	June 14	C	C	C	LC	C	C	C	C	C	C	C	C	C	C	C	54
EU	Dec. 14	MNC	C	C	LC	C	LC	MNC	LC	NC	LC	C	C	C	C	C	1
US	Dec. 14	LC	C	C	LC	C	LC	LC	MNC	LC	MNC	C	NA	C	C	C	3

C Compliant
LC Largely compliant
MNC Materially non-compliant
NC Non-compliant
NYA Not yet assessed
NA Not assessed