

Press release

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Value adjustments for default risks: FINMA adopts new approaches

The Swiss Financial Market Supervisory Authority FINMA is reorganising the provisions on accounting principles for banks. It is adjusting the method for forming value adjustments for default risks by adopting new approaches to expected losses or inherent default risks. To achieve this, the existing circular on accounting for banks is being replaced with a principles-based ordinance and a streamlined circular.

Now that the [consultation](#) phase is complete, FINMA is publishing the new and definitive FINMA Accounting Ordinance and the fully revised “Accounting – banks” circular. The ordinance contains the fundamental provisions on valuation and recognition. The circular sets out FINMA’s current position on accounting and disclosure issues. FINMA is issuing these standards in its role as the accounting standard setter for banks in Switzerland. The ordinance and circular will come into force on 1 January 2020. A transitional period of a maximum of six years applies for the formation of value adjustments for expected losses or for any additional value adjustments for inherent default risks.

FINMA is changing its approach to forming value adjustments for default risks for non-impaired receivables in order to tackle weaknesses in the current system, particularly the risk of a procyclical effect due to value adjustments being created too late. This topic has also been dealt with in the international accounting standards: the new approach has already been applied in the IFRS provisions since 2018 and will be introduced in the US GAAP from 2020. The new approaches to the formation of value adjustments for default risks in the Swiss standards are significantly simpler and more principles-based by comparison.

Value adjustments to be regulated proportionally

The new approaches to the formation of value adjustments for default risks are designed to be proportional. Only systemically important banks are required to model the expected losses in detail in their credit portfolios. Those involved in the consultation process particularly welcomed this proportionality and the methodical discretion granted to them. FINMA included individual elements of the explanatory report in the ordinance at the request of those involved in the consultation process. However, it decided

not to include more detailed definitions in connection with the new approaches to value adjustments as it was requested to, since this would restrict the intentionally granted freedom in the choice of method and be at odds with the principles-based approach.