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Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
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FINMA Guidance 04/2020

Exemptions for supervised institutions due to the COVID-19 crisis

14 April 2020

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1 Introduction

In this guidance FINMA communicates further exemptions in connection with the COVID-19 pandemic. They concern institutions authorised to apply the model approach to market risk, as well as an extension of the timeframes for supervised institutions to introduce new rules for derivatives trading.

2 Temporary exemption concerning backtesting results in the model approach to market risk

Driven by the abrupt increase in volatility due to the COVID-19 pandemic, institutions that apply a model approach to market risk are recording an increased number of backtesting exceptions. Such an exception occurs if the loss incurred on a single day is greater than the loss indicated by the model (value-at-risk, 99% quantile). Above a certain number of exceptions an increasing supplement is added to the bank-specific multiplier, resulting in an immediate and substantial increase to the minimum capital requirements for market risks. The aim of this multiplier is to provide an incentive to rectify any shortcomings of the model. Most exceptions today are not due to shortcomings of the model, however, but due to the increase in volatility. To mitigate this volatility-related heightened pro-cyclicality, FINMA is introducing the following exemption for institutions authorised to apply the model approach to market risk pursuant to Articles 82 and 88 of the Capital Adequacy Ordinance (CAO; SR 952.03).

The number of exceptions that result in an increase in the bank-specific multiplier pursuant to margin no. 332 of FINMA Circular 2008/20 "Market risks – banks" and consequently to the minimum capital requirements for market risks pursuant to Article 88 para. 3 CAO will be frozen at the level of 1 February 2020 until 1 July 2020.

Exceptions must continue to be reported in accordance with margin no. 333 of FINMA Circular 2008/20. Within one month of new exceptions occurring, the bank must submit an analysis of their causes. In particular it must investigate whether the exceptions remain even after the recalibrations of the value-at-risk model conducted regularly in accordance with the defined process. Based on this analysis, FINMA reserves the right to demand that new exceptions be considered in the bank-specific multiplier in exceptional cases.

This exemption is based on Article 4 para. 3 of the Banking Act (BA; SR 952.0) and Article 88 para. 3 CAO. It applies until **1 July 2020** and will be extended by FINMA if necessary.

3 Derivatives trading: extension of timeframes pursuant to Article 131 para. 6 FMIO

As announced in a joint statement published on 3 April 2020, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) have extended the deadline for completing the final two implementation phases of the margin requirements for non-centrally cleared OTC derivatives by one year[1]. This extension will provide additional operational capacity for firms to respond to the immediate impact of COVID-19 and allow them to focus resources on overcoming the challenges posed by the crisis. At the same time, it will facilitate firms to act diligently to comply with the requirements by the revised deadline.

FINMA supports the above-mentioned deferral by BCBS and IOSCO. On the basis of Article 131 para. 6 of the Financial Market Infrastructure Ordinance (FMIO; SR 958.11), FINMA is extending the timeframes set out in Article 131 para. 5 let. d^{bis} and let. e FMIO by one year in each case.

Accordingly, the duty to exchange initial margins shall now apply for counterparties whose aggregated month-end average gross position of non-centrally-cleared OTC derivatives at group or financial or insurance group level:

- is greater than CHF 50 billion for each of the months of March, April and May 2021: from 1 September 2021;
- is greater than CHF 8 billion for each of the months of March, April and May 2022: from 1 September 2022.

[1] https://www.bis.org/press/p200403a.htm