Swiss Banking

Basel III Final

December 2022

Swiss Bankers Association (SBA)

Position Paper

Basel III Final

Main points in brief

The Swiss Bankers Association (SBA) calls for a Swiss implementation of Basel III Final that adheres to the parameters agreed with the FDF, FINMA and the SNB.

On numerous issues, this is still not the case. Substantial adjustments are therefore needed.

- The SBA believes it would be entirely wrong for Switzerland to forge ahead before a proper comparison with the other relevant financial centres, notably the EU, US and UK, has been completed.
- The proposals set out by the authorities compromise the agreed capital neutrality, and adjustments to maintain competitiveness are therefore essential.
- As regards the real estate and mortgage market, there is a risk of competition being substantially and unjustifiably distorted, to the detriment of banks and their customers; the lower of cost or market principle must continue to apply for no more than two years, and the surcharge for residential investment properties needs to be reduced.

The SBA argues that the Swiss implementation of Basel III Final must be competitive and practicable.

What is at stake?

- Basel III Final is the last package of reforms making up the regulatory response to the financial crisis of 2007 and 2008. It primarily affects banks' capital requirements.
- In Switzerland, it is being implemented via the Federal Council's Capital Adequacy Ordinance along with a series of FINMA ordinances.
- A public consultation on the proposed implementation in Switzerland took place between July and October 2022. The SBA compiled a detailed response to the consultation (in German only).
- The authorities are currently evaluating the responses received. The National Working Group headed by the SIF and FINMA, in which the SBA is also represented, will be notified of the results and the adjustments proposed by the authorities.
- In view of the continuing uncertainty with regard to implementation in comparable financial centres, plans for the next stages have not yet been finalised. As things stand, the authorities are aiming to implement the new rules in Switzerland with effect from 1 January 2025.

What does the Swiss Bankers Association want?

We support the reform package in principle and recognise the need for it to be implemented in a way that can at least be regarded as "largely compliant" with the international standards laid down by the Basel Committee on Banking Supervision. However, substantial adjustments are needed in a number of areas, in order to safeguard competitiveness and ensure practicability, while at the same time avoiding unjustified market distortions.

- **Compare content before forging ahead:** It is essential to maintain the agreed parameter that Swiss implementation should take account of the rules that key comparable financial centres decide to impose, in terms of both content and timing.
  - **Meaningful comparison of legislation needed:** In many areas, the implementation proposals in the consultation package go beyond the solutions that other relevant, comparable financial centres can be expected to adopt, or do not adequately reflect Switzerland's specific situation. With a view to safeguarding competitiveness in particular, greater weight needs to be accorded to implementation in the EU than in less important financial centres. To maintain a level playing field internationally, due account needs to be taken not just of the EU's plans, but also those of the US and UK. The comparison of legislation presented by the authorities is therefore incomplete. The SBA calls for that comparison to be completed, and for the SBA to be involved transparently in the Federal Government's work on this area.
  - **Clarity on implementation in other financial centres needed:** Implementation in Switzerland needs to be postponed until there is clarity at the international level regarding, in particular, credit risk mitigation, treatment of managed funds without an external rating (e.g. pension funds), and the management of market and operational risks.
  - **No need for undue haste:** It is wholly unnecessary for Switzerland to forge ahead merely in order to demonstrate its keenness. The timing of implementation in the EU, US and UK must dictate the agenda. In any event, we see no reason why the new rules should come into force in Switzerland prior to implementation in the EU, which is currently scheduled for 1 January 2025.
- **Preservation of agreed capital neutrality:** The agreed parameter of capital neutrality stipulates that the revision should not make any changes to the requirements concerning capital adequacy (total required capital) in the banking sector (excluding the big banks). However, the arrangement envisaged by the authorities places a strain on this principle, with simulations (quantitative impact studies conducted by the SIF and FINMA) indicating that much higher requirements can be expected in some cases. Full use therefore needs to be made of the latitude allowed for by "largely compliant" implementation, in order to adopt solutions that are conducive to competition.
- **No distortion of the mortgage market:** The plan to increase from two years to seven the period during which the lower of cost or market principle applies when valuing and financing real estate is an excessive and unjustified interference with the market. It would extend to seven years the period during which banks are unable to pass on the benefits of any increases in value to their customers; meanwhile other players, such as pension funds and digital platforms, which are not subject to the same degree of regulation, will presumably continue to base their offerings on the current market value. This exposes banks to a considerable, purely regulation-driven competitive disadvantage. The existing two-year validity therefore needs to be maintained. With regard to mortgages on residential investment properties, the prohibitively high surcharges on risk weights should be brought down to a level that reflects the actual risks involved. For loan-to-value ratios of between 60% and 80% especially, they should be reduced from 15% to 5%. The authorities are also proposing specific minimum capital requirements for Swiss mortgages at banks that use internal credit risk models. In order to ensure that all banks affected are treated equally, these requirements must only apply to the legal entities to which such mortgages are also booked; otherwise they will distort the market even further.

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