Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel NSFR regulations – Switzerland

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Glossary

ASF	Available stable funding
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
C	Compliant (grade)
CAO	Capital Adequacy Ordinance
CHF	Swiss franc
D-SIB	Domestic systemically important bank
FINMA	Swiss Financial Market Supervisory Authority
FINMASA	Financial Market Supervision Act
GC	General collateral
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
LC	Largely compliant (grade)
LCR	Liquidity Coverage Ratio
LiqO	Liquidity Ordinance
MDB	Multilateral development bank
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
NDB	National development bank
NSFR	Net Stable Funding Ratio
PIC	Personal investment company
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RSF	Required stable funding
SFT	Securities financing transaction
SNB	Swiss National Bank

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented in a full, timely and consistent manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.[1]

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption status of the Basel Net Stable Funding Ratio (NSFR) standard in Switzerland on 31 October 2023. The assessment focused on the completeness and consistency of the Swiss regulations with the Basel NSFR standard and relied on the information provided by the Swiss authorities. The main counterpart for the assessment was the Swiss Financial Market Supervisory Authority (FINMA), which coordinated its responses with the State Secretariat for International Finance (SIF) and the Swiss National Bank (SNB).

The Assessment Team was led by Ms Ho Hern Shin, Deputy Managing Director (Financial Supervision) of the Monetary Authority of Singapore (MAS), and comprised technical experts from the Reserve Bank of India (RBI), the Hong Kong Monetary Authority (HKMA), the Bank of Italy (BdI) and De Nederlandsche Bank (DNB; see Annex 1). The work was coordinated by the Basel Committee Secretariat with support from MAS staff.

The assessment began in January 2023 and comprised: (i) a self-assessment by FINMA (January to May); (ii) an assessment phase (May to October); and (iii) a review phase (November to December) including a technical review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from FINMA throughout the assessment process.

1 See www.bis.org/bcbs/implementation.htm.

Executive summary

The Basel NSFR standard has been implemented in Switzerland through the Swiss Liquidity Ordinance and FINMA Circular 2015/2 as of 1 July 2021. The NSFR standard is applicable to all banks in Switzerland, with concessions provided for some of the medium-sized and small banks (Categories 4 and 5). The NSFR standard is also applied to the securities firms which are subject to the Swiss Capital Adequacy Ordinance.

Overall, as of 31 October 2023, the NSFR regulations in Switzerland are assessed as largely compliant with the Basel NSFR standard. This is one notch below the highest overall grade.

Two of the four components of the Basel NSFR standard – scope, minimum requirements and application issues; and disclosure requirements – are assessed as compliant. The other two components – available stable funding (ASF) and required stable funding (RSF) – are assessed as largely compliant. The ASF component grade is driven mainly by a potentially material finding and the RSF component grade mainly by a material finding. In the case of the ASF, the potentially material finding relates to the treatment of deposits from vested benefits accounts and tied pension provisions as retail deposits, which is not aligned with the Basel standard. In the case of the RSF, the material finding concerns the 0% RSF factor assigned to unencumbered Level 1 high-quality liquid assets (HQLA), for which the Basel standard assigns a 5% RSF factor. In addition, the assessment identified five additional findings which are deemed not material.

The Assessment Team noted that, in one area, the Swiss regulations go beyond the minimum Basel requirements (see Annex 5). In accordance with the methodology and guidance provided in the RCAP Handbook for jurisdictional assessments, the stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

Response from FINMA

FINMA would like to express its sincere thanks to Ms Ho Hern Shin, the Assessment Team and the supporting members from the Monetary Authority of Singapore and the BCBS Secretariat for their professionalism, expertise and integrity throughout the whole assessment process, and welcomes the opportunity to respond to the Basel Committee on the report's findings concerning the Swiss implementation of the Basel NSFR framework.

FINMA strongly supports the implementation of a globally consistent Basel Framework in which member jurisdictions adhere to standards that are as strong as, or stronger than, the agreed minimum requirements. For this reason, FINMA highly appreciates the RCAP as an instrument for promoting consistency and thereby strengthening the credibility of the Basel Framework.

FINMA agrees with the Swiss RCAP-NSFR Assessment Report's overall assessment of "largely compliant". This result confirms FINMA's self-assessment that all minimum standards of the international framework are largely met and that the adjustments required to reflect national circumstances have only a limited impact on the NSFR calculation, financial stability or the international level playing field. The "largely compliant" overall rating is driven by one potentially material finding in the ASF component and one material finding in the RSF component.

With one exception, FINMA agrees with the detailed assessment findings contained in the report. In particular, FINMA agrees with the finding relating to the Swiss deposit guarantee scheme.

On the RSF component, the Swiss NSFR provides a favourable treatment to Level 1 HQLA. The deviation, mainly motivated by the fact that these assets are considered fully liquid under the LCR standard, was a result of the Swiss rule-making process.

With regard to the ASF component, FINMA's view differs from the Assessment Team's view. The Assessment Team concludes that treating deposits from vested benefits accounts and from tied pension provisions as retail deposits represents a deviation from the international standards. While the booking of these deposits via a trust is a legal requirement of the Swiss pension system, in practice, the withdrawal of these deposits will always be triggered by the decisions of the individual natural persons (who are the ultimate beneficial owners of the accounts) on a case by case basis. FINMA acknowledges that the regulation foresees the possibility that the trust itself could withdraw the deposits in the event of a significant deterioration of the bank's creditworthiness. However, in FINMA's view this possibility is not of relevance because: (i) the trusts are set up by and are closely linked to the banks – in some cases the trust deed even requires the trust to keep the deposits with the bank, as is also acknowledged and taken into account by the Assessment Team; and (ii) the NSFR is a structural measure rather than a stress measure. Accordingly, a significant deterioration of the creditworthiness of the bank is not in scope of the current definition of the NSFR. Therefore, in FINMA's view, the retail treatment is justified by the principle of substance over form and, as a consequence, this Swiss specificity should not be identified as a deviation but rather as an observation.

Overall, FINMA believes that the RCAP facilitates robust discussions on the appropriateness of each member state's implementation of the Basel Framework, thereby taking due account of local circumstances and revealing areas where national regulations can be improved. This assessment shows that, although local circumstances required some adjustments, a faithful and robust implementation of the Basel NSFR framework has been achieved in Switzerland.

1 Assessment context

1.1 Regulatory system

Swiss law is based on the continental European tradition of civil law. Switzerland's regulatory approach has been principles-based and this is reflected in the Swiss liquidity rules: (i) rules in several areas remain less specified than the Basel standards; and (ii) while a substantial part of the Basel standards is established in Swiss primary legislation, a large part is also contained in secondary and the remainder in tertiary regulation (see Annex 2). The relevant secondary and tertiary regulation is developed by FINMA pursuant to Article 7 paragraph 1 of the Financial Market Supervision Act (FINMASA), according to which FINMA may exercise its regulatory powers by issuing ordinances and circulars on the application of financial market legislation. The content of FINMA regulation must be materially related to, and must not conflict with, a superordinate enactment (ie ordinances and acts). The ordinances issued by the Swiss Federal Council and FINMA regulation are also supplemented by other administrative procedures that provide non-enforceable and non-binding guidance on certain prudential matters.

The relevant hierarchy of prudential regulations through which the Basel NSFR standard is implemented in Switzerland consists of primary legislation, ie the Liquidity Ordinance (LiqO) issued by the Swiss Federal Council, and secondary legislation, ie Circular 2015/2 issued by FINMA.

The LiqO is a legislative instrument and has the force of law. It has been issued by the Swiss Federal Council empowered by the Swiss Banking Act. FINMA Circular 2015/2 ensures uniform implementation of the NSFR standard in Switzerland by specifying open, undefined legal norms and outlining generally abstract requirements for exercising discretionary powers.

1.2 Status of NSFR implementation

The Basel NSFR standard has been implemented in Switzerland with effect from 1 July 2021 and is applicable to all banks and securities firms in Switzerland (254 as of end-2022) except those securities firms that are not subject to the Capital Adequacy Ordinance (CAO) and those banks qualifying for the Swiss "small banks regime". FINMA assigns banks to five categories on the basis of their total assets, assets under management, deposits and required minimum capital. Category 1 covers Swiss global systemically important banks (G-SIBs), Category 2 covers domestic systemically important banks (D-SIBs), Category 3 consists of large and complex institutions and Categories 4 and 5 comprise medium-sized and small banks, respectively. The majority of banks and all securities firms (157) are in Category 5. Banks in Categories 4 and 5 which are liquid and well capitalised may apply for the Swiss "small banks regime" that will exempt them from all NSFR requirements.[2] The NSFR is applied in Switzerland to banks at both consolidated and entity level.

The main regulation for the Swiss NSFR is the LiqO, with technical elements provided in FINMA Circular 2015/2, all published in German, French and Italian. For the purpose of this assessment, the regulations were translated into English.

[2] To be eligible for the small banks regime, the bank must be in Category 4 or 5 and all of the following admittance criteria must be complied with at all times at the level of both the single entity and the financial group: the simplified leverage ratio (ie the ratio of Tier 1 capital and total on- and off-balance sheet assets after deduction of goodwill and participations) is at least 8%, the average LCR over 12 months is at least 110%, and the refinancing rate is at least 100% (see CAO Article 47b for details). FINMA may reject a bank's application for the small banks regime under certain circumstances.

1.3 Scope of the assessment

The Assessment Team considered the NSFR requirements applicable to a sample of internationally active banks in in Switzerland as of 31 October 2023. The assessment had two dimensions:

- a comparison of Swiss regulations with the Basel NSFR standard to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between Swiss regulations and the Basel NSFR standard and, if so, their significance (*consistency* of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel NSFR standard in Switzerland. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the adequacy of liquidity or the resilience of the banking system in Switzerland or the supervisory effectiveness of the Swiss authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and Swiss regulations. The evaluation was conducted using a sample of seven internationally active Swiss banks. Together, these banks comprise about 83% of the assets of internationally active banks in Switzerland. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the Swiss regulations comply with the Basel NSFR standard in letter and in spirit. The materiality assessment is summarised in Annex 4, which also lists the sample of banks.

The Assessment Team noted that, in one area, the Swiss rules go beyond the minimum Basel requirements. Although these elements (listed in Annex 5) provide for a more rigorous implementation of the Basel NSFR standard, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both for each of the four key components of the Basel NSFR standard and for the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and non-compliant (NC).

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the NSFR in Switzerland to be largely compliant with the Basel standard. This grade is based on the materiality assessment as summarised in Annex 4.

Assessment grades — Table 1

Component of the Basel NSFR standard	Grade
Overall grade	LC
Scope, minimum requirement and application issues	C
Available stable funding (numerator)	LC
Required stable funding (denominator)	LC
NSFR disclosure requirements	C

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

2.1.1 Scope, minimum requirement and application issues

This component is assessed as compliant with the Basel NSFR standard. No findings were identified.

The Assessment Team has made two observations. The first concerns the implementation date of the NSFR standard and the second relates to the application of the standard to smaller banks as well as the reporting frequency of these banks.

2.1.2 Available stable funding

This component is assessed as largely compliant with the Basel NSFR standard.

The Assessment Team has identified one potentially material finding concerning the treatment of deposits from vested benefits accounts and from tied pension provisions booked and managed via trusts, as well as one not material finding regarding the treatment of stable retail deposits insured by the Swiss deposit insurance scheme.

Considering that the potentially material finding only materialises during times of stress, and applying expert judgment, the Assessment Team believes that the overall impact of the two deviations is unlikely to significantly affect Switzerland's financial stability or the international level playing field. Therefore, the available stable funding (ASF) component is assessed as largely compliant.

Further, the Assessment Team has made two observations relating to the treatment of long-dated liabilities and deposits from personal investment companies.

2.1.3 Required stable funding

This component is assessed as largely compliant with the Basel NSFR standard.

The Assessment Team has identified one material finding related to the assignment of a lower (0%) required stable funding (RSF) factor for unencumbered Level 1 high-quality liquid assets (HQLA). In addition, the Assessment Team has identified three not material findings.

Taken together, the average impact on the NSFR across the sample banks is 1.4 percentage points (pp), with an impact of 6.1 pp and 1.0 pp, respectively, for the two most affected banks. These results are primarily driven by the impact on a small bank. If the impact from this outlier bank is excluded, the aggregate average impact would drop to 0.6 pp only. Therefore, the Assessment Team believes that the overall impact of the deviations on both Switzerland's financial stability and the international level playing field is limited. Therefore, the RSF component is assessed as largely compliant.

2.1.4 Disclosure requirements

This component is assessed as compliant with the Basel NSFR standard.

The Assessment Team has identified one not material finding related to the disclosure of performing loans to financial institutions.

Additionally, there are two observations regarding the implementation date for the disclosure requirements and the scope of application for disclosures.

2.2 Detailed assessment findings

2.2.1 Scope, minimum requirement and application issues

This component is assessed as compliant with the Basel NSFR standard. No findings were identified.

2.2.2 Available stable funding

Section grade	**Largely compliant**
Basel paragraph number	22: Stable deposits fully insured by an effective deposit insurance scheme
Reference in the domestic regulation	Article 17k LiqO in conjunction with Annex 4 item 2 LiqO
Finding	The Basel NSFR standard requires that stable deposits receiving a 95% ASF factor be fully insured by an effective deposit insurance scheme, as defined in paragraphs 75 to 78 of the Liquidity Coverage Ratio (LCR) standard. The definition of stable deposits in the Swiss NSFR rules is the same as that in the Swiss LCR rules. In the Swiss LCR RCAP report, a finding regarding the specific characteristics of the Swiss deposit insurance framework was raised.[3] The framework imposes system-wide and bank-specific caps on insurance payouts. This may imply that, in a stress situation, not all "stable" deposits may benefit from the scheme, and it becomes uncertain which customers' deposits are effectively protected before the actual payout. To assess the materiality of this finding, the Assessment Team assumed that all retail deposits covered by the Swiss deposit insurance scheme currently classified as stable deposits and receiving a 95% ASF factor were instead classified as less stable deposits and receiving a 90% ASF factor. The average impact on the NSFR for the RCAP sample banks would be 0.3 pp, with the most affected bank experiencing a 1.0 pp impact. Therefore, the Assessment Team assesses the deviation as not material. Furthermore, the Assessment Team considers that the deviation is unlikely to become material in the near future. This is based on two factors: (i) the current impact on the NSFR for the RCAP sample banks is low; and (ii) FINMA has indicated that a significant increase in deposits covered by the Swiss deposit insurance scheme that could materially impact the NSFR is unlikely.
Materiality	Not material
Basel paragraph number	23: Liabilities receiving a 90% ASF factor
Reference in the domestic regulation	Article 17k LiqO in conjunction with Annex 4 item 3 LiqO; FINMA Circular 2015/2, margin no (mn) 382–5
Finding	The Basel NSFR standard requires that liabilities receiving a 90% ASF factor comprise "less stable" (as defined in paragraphs 79–81 of the Basel LCR standard) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year that are provided by retail and small business customers. According to paragraph 73 of the LCR standard, retail deposits are defined as ''deposits placed with a bank by a natural person''. Deposits from legal entities, sole proprietorships or partnerships are classified as "wholesale funding". Additionally, paragraph 109 of the LCR standard states that deposits from fiduciaries, beneficiaries, conduits, special purpose vehicles, etc should also be treated as "wholesale funding". The Basel NSFR definitions mirror those outlined in the LCR standard, including the definition of retail deposits and wholesale funding (see paragraph 16 of the NSFR standard). The Basel NSFR FAQ also clarifies that "fiduciaries" and ''beneficiaries" are considered "financial institutions" for the application of the NSFR standard (see the answer to Q2 of the FAQ).[4] However, under the Swiss NSFR rules, deposits from vested benefits accounts and from tied pension provisions booked and managed via trusts can be treated the same as "less stable retail deposits" and are subject to a 90% ASF factor, provided the following conditions (set out in FINMA Circular 2015/2 mn 382–5) are met: (a) the deposits can be clearly assigned to a specific natural person; (b) the deposits may only be withdrawn by the natural person within one year; and

[3] See Basel Committee on Banking Supervision, *Assessment of Basel III LCR regulations – Switzerland*, October 2017, www.bis.org/bcbs/publ/d422.pdf.

[4] See Basel Committee on Banking Supervision, *Basel III – The Net Stable Funding Ratio: frequently asked questions*, July 2016, www.bis.org/bcbs/publ/d375.pdf.

	(c) the deposits may only be withdrawn by the vested benefits/bank/pension scheme themselves (ie the trusts) in the event of substantial credit rating deterioration on the part of the bank. The Swiss authorities have explained that the Swiss pension system consists of three pillars, with the second and third pillars being relevant to the deposits mentioned above. The second pillar (ie the vested benefits accounts) is a pension plan offered by employers. The third pillar (ie deposits from tied pension provisions) is an individual savings account with tax benefits intended for additional retirement savings. Deposits from both vested benefits accounts and tied pension provisions are legally and contractually owned by a trust. Deposits in both the second and third pillar of the Swiss pension system are excluded from the coverage of the Swiss deposit insurance framework. The Swiss authorities have emphasised that the treatment as retail deposits can only be applied if the trust is contractually prevented from withdrawing the deposits at its own discretion without giving at least a one-year notice period, except in cases of significant reduction in the deposit bank's creditworthiness or upon receiving instructions from a natural person who is the beneficiary of the trust to request a deposit withdrawal. However, the Assessment Team noted that the Basel NSFR standard does not provide a look-through approach for the definition of "retail deposits". The Assessment Team further concludes that the trust should be regarded as an independent entity, based on the fact that each trust has its own board of directors and a mandate of duties, including – at least for one RCAP sample bank – the duty to assess the creditworthiness of its counterparties and to withdraw the deposits from a distressed deposit bank to protect the interest of its beneficiaries. Thus, it is a deviation from paragraph 23 of the Basel NSFR standard to treat the deposits from vested benefits accounts or tied pension provisions as "retail deposits" under the NSFR standard. In assessing this issue, the Assessment Team has made reference to a finding related to treatment of deposits placed by trusts as retail deposits in the US NSFR RCAP report.[5] In assessing the materiality of this deviation, the Assessment Team noted that during normal times, such deposits are at least as stable as other retail deposits, owing to the restrictions on deposit withdrawals by the trusts as set out in FINMA Circular 2015/2 mn 382–5. During stress periods, however, withdrawals by the trust owing to a material deterioration in the creditworthiness of the deposit bank would be permitted as set out in FINMA Circular 2015/2 mn 382–5. Hence, the Assessment Team is of the view that the impact of this deviation may materialise during times of stress. In order to assess the materiality of this deviation in the stressed scenario, the Assessment Team assumes that all these deposits are reclassified as deposits from financial institutions/other legal entities and subject to a 0% ASF factor. The average impact on the NSFR for the RCAP sample banks would be 1.5 pp, with impacts of 5.3 pp and 2.9 pp respectively for the two most affected banks. These impacts take into account the fact that the impact on the NSFR for four out of the seven RCAP sample banks is zero. This is because two RCAP sample banks do not make use of the 90% ASF factor in the Swiss NSFR rules for such deposits, while the trusts for two other RCAP sample banks are obliged by their deeds to retain the deposits with their respective banks even if the bank's creditworthiness deteriorates. The Swiss authorities have stressed that the actual withdrawal risk of these deposits is very low, as evidenced in the recent banking turmoil. However, the Assessment Team notes that uncertainties remain about the outflow behaviours of such deposits in other stress situations when there is a significant reduction in the deposit bank's creditworthiness. In particular, the trust for the most impacted bank has an explicit mandate to act in the interest of depositors, including considering withdrawals where there is a significant reduction in the deposit bank's creditworthiness. Therefore, the Assessment Team assesses this deviation as potentially material.
Materiality	Potentially material

[5] See Section 2.2.1 in Basel Committee on Banking Supervision, *Assessment of Basel NSFR regulations – United States*, July 2023, www.bis.org/bcbs/publ/d553.pdf.

2.2.3 Required stable funding

Section grade	**Largely compliant**
Basel paragraph number	31: RSF factors for assets encumbered for exceptional central bank liquidity operations
Reference in the domestic regulation	Article 17m LiqO in conjunction with Annex 5 LiqO
Finding	The Basel NSFR standard states that assets encumbered for exceptional central bank liquidity operations may receive a reduced RSF factor, which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. Consequently, HQLA encumbered for exceptional central bank liquidity operations receive RSF factors of at least 5% for Level 1 HQLA, 15% for Level 2A HQLA and 50% for Level 2B HQLA, respectively. However, the Swiss NSFR rules allow HQLA encumbered for exceptional central bank liquidity operations to receive a 0% RSF factor for Level 1 HQLA (Annex 5 item 1.8 LiqO) and 15% for Level 2 (including both Level 2A and 2B) HQLA (Annex 5 item 3.3 LiqO) respectively. Furthermore, the Swiss NSFR rules provide FINMA with a general power to reduce the RSF factors applied to certain transactions at the request of the Swiss National Bank (SNB), for the purpose of counteracting a severe impairment to the implementation of the SNB's monetary policy. There are no predefined criteria for the SNB to make such a request. FINMA does not establish specific criteria regarding the scope of transactions for which the RSF factors may be reduced nor limits to reduction. None of the RCAP sample banks reported any encumbered Level 1 HQLA that benefited from the reduced RSF factor of 0% as of 31 December 2022. Additionally, the SNB has not encumbered any Level 2B HQLA through its exceptional central bank liquidity operations thus far. In addition, FINMA has explained that the SNB will only make a request to reduce RSF factors in extraordinary circumstances, and thus far, no such request has been made. The Assessment Team considers the likelihood of a reduction in RSF factors that exceeds the reduction allowed under the Basel NSFR standard (in terms of the scope of transactions or the reduced RSF factor applied) to be low, though not zero. In addition, there is no indication of a significant impact in the near future. Therefore, this deviation is assessed as not material.
Materiality	Not material
Basel paragraph number	35: Variation margin used to offset the amount of derivative assets
Reference in the domestic regulation	Article 17j (5) LiqO in conjunction with FINMA Circular 2015/2 mn 374–81
Finding	The Basel NSFR standard specifies that collateral received in connection with derivative contracts may not offset the positive replacement cost when calculating derivative asset amounts, irrespective of whether netting is permitted under the bank's accounting or risk framework, unless the collateral is received in the form of cash variation margin and meets the conditions as specified in paragraph 25 of the *Basel III leverage ratio framework and disclosure requirements*. The Swiss NSFR rules allow both cash variation margin and Level 1 HQLA received as variation margin under derivative contracts to offset the amount of derivative assets. The average normalised impact on the NSFR for the RCAP sample banks is 0.1 pp, with an impact of 0.5 pp for the most affected bank. Therefore, this deviation is assessed as not material.
Materiality	Not material
Basel paragraph number	37: RSF factor assigned to Level 1 HQLA
Reference in the domestic regulation	Article 17m LiqO in conjunction with Annex 5 items 1.6–1.7 LiqO
Finding	The Basel NSFR standard specifies that a 5% RSF factor is assigned to unencumbered Level 1 HQLA. However, under the Swiss NSFR rules, a 0% RSF factor is assigned to unencumbered Level 1 HQLA. FINMA has explained that it does not consider it appropriate to impose a 5% RSF for such assets, as they are considered fully liquid under the LCR standard. It also said that

	the 0% RSF treatment would help facilitate monetary policy interventions when liquidity must be absorbed rapidly, particularly for SNB Bills with maturities longer than six months. The average normalised impact on the NSFR of the RCAP banks is 1.2 pp, with impacts of 5.7 and 1.0 pp respectively for the two most affected banks. Therefore, this deviation is assessed as material. The Swiss authorities further explained that the high level of impact for the most affected bank is caused by the fact that the bank's ratio of Level 1 HQLA as a proportion of its RSF is large.
Materiality	Material
Basel paragraph number	39(b): RSF factor assigned to short-term unencumbered loans to financial institutions secured by Level 2A HQLA
Reference in the domestic regulation	Article 17m LiqO in conjunction with Annex 5 item 2 LiqO
Finding	Paragraph 38 of the Basel NSFR standard specifies that only unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in LCR paragraph 50, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan, can be assigned a 10% RSF factor. All other unencumbered loans to financial institutions with residual maturities of less than six months, not included in paragraph 38 of the Basel NSFR standard, are assigned a 15% RSF factor in accordance with paragraph 39(b) of the standard. The Swiss NSFR rules assign a 10% RSF factor to unencumbered loans to financial institutions, even when the loan is secured against Level 2A HQLA, as long as the remaining conditions are met. According to the Swiss authorities, this ensures that transactions against a general collateral basket (which contains Level 1 and Level 2A assets) are performed without incentivising a split of the transaction volume for two different collateral baskets. The average normalised impact on the NSFR for the RCAP sample banks is 0.1 pp, with an impact of 0.5 pp for the most affected bank. This deviation is assessed as not material.
Materiality	Not material

2.2.4 Disclosure requirements

Section grade	**Compliant**
Basel paragraph number	LIQ2 template: Disclosure of performing loans to financial institutions
Reference in the domestic regulation	FINMA Circular 2016/01 Annex 2 LIQ2
Finding	The Basel NSFR disclosure template requires banks to disclose the amount of their performing loans to financial institutions secured by Level 1 HQLA in item 18, and those secured by non-Level 1 HQLA or unsecured performing loans to financial institutions in item 19. The Swiss NSFR disclosure template requires banks to report the amount of performing loans to financial institutions secured by Level 1 HQLA or Level 2A HQLA in item 18, and those which are not secured by Level 1 or Level 2A HQLA or which are unsecured in item 19. The Swiss authorities explained that since performing loans to financial institutions secured by Level 1 and Level 2A HQLA receive the same RSF factor in the Swiss NSFR rules (see finding on Basel NSFR paragraph 39), the regulatory reporting does not differentiate between them. Therefore, for disclosures, the separation of performing loans to financial institutions secured by Level 1 and Level 2A HQLA is not required. This finding is related to the finding on Basel NSFR paragraph 39 above, which is assessed as not material. Therefore, this deviation is assessed as not material.
Materiality	Not material

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel NSFR standard in Switzerland. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Scope, minimum requirement and application issues

Basel paragraph number	8: Implementation date
Reference in the domestic regulation	LiqO (AS 2020 3921) and FINMA Circular 2015/2
Observation	The Basel NSFR standard requires the implementation of the NSFR by 1 January 2018. Switzerland implemented the NSFR as of 1 July 2021, taking into account implementation delays in some other jurisdictions.
Basel paragraph number	49: Frequency of reporting 50: Scope of application
Reference in the domestic regulation	Article 17q (3)-(5) LiqO Article 17h (2) LiqO in conjunction with FINMA Circular 2015/2 mn 365 and 104–10, and Article 17t LiqO
Observation	The Basel NSFR standard requires that the NSFR be applied to all internationally active banks on a consolidated basis and requires these banks to report the NSFR at least quarterly. The Swiss NSFR rules apply to all banks in Switzerland, but some concessions are provided for Category 4 and 5 banks. FINMA explained that these are small banks (with total assets of less than CHF 15 billion) with insignificant international activities (if any). As of 31 December 2022, there are 41 Category 4 and 5 banks with at least one branch or subsidiary abroad, which account for less than 3% of the total assets of all Swiss banks, and four Category 4 and 5 banks in FINMA's "small banks regime" with at least one branch or subsidiary abroad, which account for less than 0.25% of the total assets of all Swiss banks. FINMA also explained that these concessions were granted to reduce the regulatory burden and reporting complexity for small banks. The concessions in the Swiss NSFR rules are as follows: • Category 4 and 5 banks in FINMA's "small banks regime" are exempted from all NSFR requirements; • Category 4 and 5 banks are allowed to report the NSFR semiannually (instead of quarterly); • Category 4 and 5 banks are not required to meet the full NSFR disclosure requirements and are allowed to disclose headline NSFR figures only (ASF, RSF and NSFR) on an annual basis.

2.3.2 Available stable funding

Basel paragraph number	18: Long-dated liabilities
Reference in the domestic regulation	Article 17l LiqO; FINMA Circular 2015/2 mn 368
Observation	The Basel NSFR standard requires that for long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively. Under the Swiss NSFR rules, in the case of long-term liabilities with staggered maturities, only the portion due within one year should be assigned to the ASF category with a residual maturity of less than a year.

	The Assessment Team has observed that the Swiss NSFR rules do not specify explicitly whether liabilities with a residual maturity of less than six months should be reported under the time bucket of less than six months or the one between six months and less than one year. However, according to FINMA, the RCAP sample banks have confirmed, through a written procedure, that they interpret the regulation of Article 17l LiqO(4) in line with paragraph 18 of the Basel NSFR standard.
Basel paragraph number	24(a): Personal investment companies (PICs)
Reference in the domestic regulation	Article 17k LiqO in conjunction with Annex 4 items 5.1–5.5. LiqO; FINMA Circular 2015/2 mn 364 in conjunction with FINMA Circular 2015/2 mn 242–6
Observation	The Basel NSFR standard requires that funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers receive a 50% ASF factor. The Swiss NSFR rules assign a 50% ASF factor to funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporates, which is in line with the Basel NSFR standard. According to the Swiss LCR RCAP report, deposits from PICs (including family trusts and foundations) are classified as deposits from non-financial corporates if the beneficial owner is a natural person or several natural persons who are closely related to each other. Under the Swiss NSFR rules (FINMA Circular 2015/2 mn 364), the terms and definitions used for the NSFR are the same as those used for the LCR, unless indicated otherwise. In particular, the Swiss NSFR rules state that the treatment of deposits from other legal entities in FINMA Circular 2015/2 mn 245 also applies for the NSFR. Hence, under the Swiss NSFR rules, deposits from PICs are classified as deposits from non-financial corporates. This means that funding (secured and unsecured) with a residual maturity of less than one year provided by PICs will receive a 50% ASF factor.

2.3.3 Disclosure requirements

Basel paragraph number	LIQ2 Implementation date: Implementation date for disclosure requirements
Reference in the domestic regulation	FINMA Circular 2016/1 Annex 1, row LIQ2
Observation	The Basel NSFR standard requires the implementation of the disclosure requirements by 1 January 2018. Switzerland implemented the NSFR disclosure requirements from 1 July 2021, taking into account implementation delays in some other jurisdictions.
Basel paragraph number	LIQ2 Scope of application: Scope of application for disclosures
Reference in the domestic regulation	FINMA Circular 2016/1 Annex 1, row LIQ2
Observation	The Basel NSFR disclosure requirements are fully applicable to all internationally active banks on a consolidated basis. Under the Swiss rules, Category 4 and 5 banks are not required to meet the full NSFR disclosure requirements and are allowed to disclose headline NSFR figures only (ASF, RSF and NSFR) on an annual basis. Refer to the observation for Basel paragraphs 49 and 50 under Section 2.3.1 for more information.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

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Assessment Team members

Ms G Jyothisree	Reserve Bank of India
Ms Giulia Mele	Bank of Italy
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Review Team members

Mr Simon Hall	Bank of England
Ms Alejandra Anastasi	Central Bank of Argentina
Mr Amar Munipalle	Office of the Superintendent of Financial Institutions
Mr Stefan Hohl	Basel Committee Secretariat

Annex 2: List of Basel standards and implementing regulations issued by the Swiss authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Basel III: the Net Stable Funding Ratio*, October 2014
- *Basel III – the Net Stable Funding Ratio: frequently asked questions,* February 2017
- *Pillar 3 disclosure requirements – consolidated and enhanced framework*, March 2017
- *Implementation of Net Stable Funding Ratio and treatment of derivative liabilities*, October 2017
- *Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio,* June 2018

Table A.1 lists the regulations issued by the Swiss authorities to implement the NSFR standard in Switzerland. Table A.2 sets out the hierarchy of Swiss laws and regulatory instruments. Previous RCAP assessments of the Swiss implementation of the Basel standards considered the binding nature of regulatory documents in Switzerland. [6] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instruments described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant liquidity regulations in Switzerland — Table A.1

Domestic regulations	Date and version
Liquidity Ordinance (LiqO)	Issued 30 November 2012, version 1 July 2022
FINMA Circular 2015/2 Liquidity risks – banks	Issued 3 July 2014, version 4 November 2020
FINMA Circular 2016/1 Disclosure – banks	Issued 28 October 2016, version 8 December 2021

Source: FINMA.

Hierarchy of Swiss laws and regulatory instruments — Table A.2

Domestic regulations	Type
Primary (1)	- Swiss Federal Acts (1.1) - Swiss Federal Council Ordinances (1.2) - FINMA Ordinances (1.3)
Secondary (2)	- FINMA Circulars (2.1) - Self-regulation recognised by FINMA (2.2)

Tertiary (3)	- Legal administrative procedures: FINMA rulings (3.1)
	- Other administrative procedures (3.2)
	  - FINMA guidance
	  - FAQs on supervisory matters
	  - Guidelines

Source: FINMA.

[6] See Section 1.2 and Annexes 2 and 6 in Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III LCR regulations – Switzerland*, October 2017, www.bis.org/bcbs/publ/d422.pdf.

Annex 3: Key liquidity indicators of the Swiss banking system

Overview of Swiss banking sector liquidity as of end 2022

Table A.3

Size of banking sector (CHF, millions)		
Total leverage ratio exposures of all banks operating in Switzerland (including off-balance sheet exposures)	3,639,340	
Total leverage ratio exposures of all locally incorporated internationally active banks	2,474,513	
Total leverage ratio exposures of locally incorporated banks to which liquidity standards under the Basel framework are applied	3,583,840	
Number of banks		
Number of banks operating in Switzerland (excluding local representative offices)	184	
Number of G-SIBs	2	
Number of D-SIBs	3	
Number of banks which are internationally active	57	
Number of banks required to implement Basel III NSFR standards	132	
Number of banks required to implement domestic liquidity standards	132	
Breakdown of NSFR for 7 RCAP sample banks (CHF, millions)	**Unweighted**	**Weighted**
Capital	180,888	180,888
Stable deposits from retail and small business customers	61,030	57,980
Less stable deposits from retail and small business customers	667,829	602,463
Unsecured funding from non-financial corporates	306,532	159,421
Unsecured funding from central banks, sovereigns, PSEs, MDBs and NDBs	73,632	21,390
Unsecured funding from financials (other legal entities)	472,832	234,494
Secured funding (all counterparties)	145,968	53,371
Other liabilities	233,759	19,589
Total available stable funding	2,142,470	1,329,596
Cash and central bank reserves	309,795	0
Loans to financial institutions	263,223	105,969
Securities eligible as Level 1 HQLA	109,082	3,998
Securities eligible as Level 2A HQLA	58,132	11,343
Securities eligible as Level 2B HQLA	43,365	22,132
All residential mortgages	499,060	344,018
Loans, <1 year	252,560	117,539
Other loans, >1 year, risk weight<=35%	0	0
Loans, risk weight>35%	244,960	208,258
Derivatives	254	254
All other assets	295,495	243,696
Off-balance sheet	1,053,229	10,714
Total required stable funding	3,129,155	1,067,921
NSFR		125%

Source: FINMA.

Annex 4: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.4. Assessment teams evaluate the materiality of findings quantitatively where possible, or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported NSFRs of banks in the RCAP sample. These banks are listed in Table A.5.

Number of deviations by component — Table A.4

Component	Not material	Potentially material	Material
Scope, minimum requirement and application issues	0	0	0
Available stable funding (numerator)	1	1	0
Required stable funding (denominator)	3	0	1
NSFR disclosure requirements	1	0	0

RCAP sample banks — Table A.5

Banking group	Share of banks' assets in the total assets of the internationally active banks in the Swiss banking system (in per cent)
UBS AG	38.4
Credit Suisse Group AG	26.3
Zürcher Kantonalbank	9.0
Julius Bär Gruppe	4.3
Banque Cantonale Vaudoise	2.5
Raiffeisen-Gruppe	0.0
Pictet et Cie	2.0
TOTAL	**82.5**

For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Source: FINMA.

Annex 5: Areas where Swiss rules are stricter than the Basel standards

In one area, the Swiss authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. This item is listed below for information. The stricter rule has not been taken into account as a mitigant for the overall or component-level assessment of compliance.

Definition of HQLA

Both the Swiss LCR and NSFR rules apply more stringent requirements for the recognition of HQLA. In Switzerland, cantonal banks which benefit from the guarantee of their respective canton for liabilities cannot consider bonds issued by the home canton as HQLA.

Annex 6: Elements of the NSFR subject to national discretion

Implementation of national discretions by the Swiss authorities — Table A.6

Basel paragraph	Description	National implementation
25(a)	Treatment of deposits between banks within the same cooperative network	Deposits between banks of the same cooperative network in the context of common task-sharing and legal, statutory or contractual arrangements receive an 85% ASF (LiqO Annex 4 no 4).
31	Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance	The excess collateral in a covered bond collateral pool that can be sold, or which allows for multiple issuances, may be treated as unencumbered (FINMA Circular 2015/2 mn 397)
31, 36	Treatment of central bank operations	The RSF for the required reserve is 0% except for cases where the central bank requires the bank to hold the required reserve over a longer period (LiqO Annex 5 no 1.2a). With respect to the RSF for assets encumbered for exceptional liquidity operations, there is currently no special treatment except the application of the unwind mechanism, which is applied in the LCR, and the RSF factor of 15% for Level 2A HQLA encumbered due to monetary policy (LiqO Annex 5 no 3.3). According to the general unwind mechanism for securities financing transactions (SFTs) involving Level 1 and Level 2A HQLA with maturities of less than 30 days, a bank calculates its LCR as if it had not executed any of those SFTs. This approach has been deliberately put in place to ensure effective implementation of central bank liquidity operations and general participation in the Swiss repo market in the context of a shortage of Swiss franc-denominated securities and a requirement to meet the LCR also on a Swiss franc (CHF) basis. Under Art 17m para 6 LiqO FINMA can, at the SNB's request, temporarily reduce the RSF factor for certain transactions (caused by monetary policy) if this can mitigate a significant impediment to the implementation of monetary policy. This relief has not been applied so far. On the treatment of derivative transactions with central banks arising from short-term monetary policy and liquidity operations, there is no special treatment except the possibility granted by Art 17m para 6 LiqO, which has not been applied so far.
43	RSF factor for derivative liabilities	The Swiss authorities have assigned a 100% RSF factor to 20% of derivative liabilities (LiqO Annex 5 no 7.3).
45	Treatment of interdependent assets and liabilities	FINMA has defined interdependent assets and liabilities: Physical inventories of precious metals, precious metal accounts with other banks or similar positions to the extent that they are used to hedge precious metal accounts under defined circumstances (FINMA Circular 2015/2 mn 414–16). Provisions for bonuses recorded as deferred income and the associated hedging transactions for market risks that are reported on the asset side of the balance sheet if the asset is liquidated at the same time as the liability (FINMA Circular 2015/2 mn 417). For banks in Categories 3, 4 and 5, the replacement values that arise from the client's derivative transaction and the corresponding offsetting transaction of the same kind with another counterparty for hedging purposes as long as the bank changes the hedging exposure in a way that mirrors the change in the corresponding client position (FINMA Circular 2015/2 mn 418).

47	RSF factors for other contingent funding obligations	Other contingent funding obligations defined in the LiqO are: • 0% RSF factor to unconditionally revocable credit and liquidity facilities (LiqO Annex 5 no 1.9). • 0% RSF factor to guarantees and letters of credit related to trade finance obligations (LiqO Annex 5 no 9.1) and 5% RSF factor to guarantees and letters of credit unrelated to trade finance obligations (LiqO Annex 5 no 9.2).
50	Scope of application of NSFR and scope of consolidation of entities within a banking group	The NSFR is in general applied to all banks (internationally active as well as only nationally active) not only on a consolidated but also on an individual level. Banks in the "small banks regime" are exempted from the NSFR according to Art 17t LiqO. Only Category 4 and 5 banks can be in the small banks regime. They are not in scope of the Basel regulation (refer to FINMA Circular 2015/2 mn 8.1 for the definition of "small banks"). However, according to Art 17h para 3–4 LiqO, FINMA may allow individual institutions which are part of finance groups to comply with an NSFR of 0.8 instead of 1 if, within the group, there is sufficient excess funding available at individual institutions domiciled in Switzerland.

Source: FINMA.