

Basel III and its final package

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The Swiss TBTF regime was built on top of the international Basel standards. When the Basel Committee published Basel III in December 2010, Switzerland was among the first jurisdictions to implement it. The amended Capital Adequacy Ordinance, adopted in 2012, entered into force on 1 January 2013 and introduced the Basel III definitions of capital and the new minimum ratios for all banks. The special TBTF requirements were set out in a separate part of the same ordinance, so that the Swiss finish could be read directly against the international baseline.¹ Further elements followed in stages. The leverage ratio minimum of 3 per cent for all banks was introduced in 2018 and the risk diversification rules were revised with effect from 2019, before the NSFR followed in 2021.²

The final Basel III package, agreed by the Basel Committee in December 2017, revised the standardised approaches for credit risk, operational risk and market risk and introduced an output floor that limits the advantage banks can obtain from their internal models. Its implementation was delayed internationally by one year when the Basel Committee extended the deadlines on 27 March 2020 to free resources during the pandemic.³ In Switzerland, FINMA published five new ordinances in March 2024 that replaced a number of circulars. They covered the trading book and banking book and eligible capital, the leverage ratio and operational risks, credit risks, market risks and disclosure. FINMA stressed that the Swiss financial centre would benefit from a strict implementation closely aligned with the standards, while noting that certain minimum haircuts for securities financing transactions would not be introduced as long as other important financial centres did not introduce them.⁴

The question of timing became political in 2024, when several major jurisdictions postponed parts of their implementation.⁵ On 26 June 2024 the Federal Council confirmed that the amended Capital Adequacy Ordinance would nevertheless enter into force on 1 January 2025 as

planned.⁶ The decision to proceed alone was consistent with the Swiss tradition of implementing Basel standards promptly and in full. It also reflected the political climate after the fall of Credit Suisse, in which a postponement of stricter rules for the benefit of the banks would have been difficult to defend. The final Basel III package primarily affects the denominator of the capital ratios, the risk-weighted assets, while the TBTF regime concerns mainly the numerator, the amount of capital required. The two interact, however: an output floor that raises risk-weighted assets increases the effective burden of every percentage point of the Swiss finish.

1 Notes

1. Ordinance of 1 June 2012 on Capital Adequacy and Risk Diversification for Banks and Securities Firms (Capital Adequacy Ordinance, CAO), SR 952.03, bilingual edition, <https://www.droit-bilingue.ch/de-fr/9/95/952.03-index.html>. Under Art. 151, <https://www.droit-bilingue.ch/de-fr/9/95/952.03-151-174.html>, the ordinance entered into force on 1 January 2013, subject to exceptions. See also swissinfo.ch, “‘Swiss finish’ für Banken kann in Kraft treten” (as above). ↩
2. SIF, “Basel III” (as above). ↩
3. SIF, “Basel III” (as above). ↩
4. FINMA, press release “FINMA publishes ordinances to implement the final Basel III standards”, 27 March 2024, <https://www.finma.ch/en/news/2024/03/20240327-mm-basel-iii-umsetzung/>. ↩
5. In 2024 the European Union deferred the application of the new market risk rules (the Fundamental Review of the Trading Book) to 1 January 2026: Linklaters, “PRA waters down key Basel 3.1 rules”, September 2024, <https://www.linklaters.com/en/insights/publications/2024/september/pr-waters-down-key-basel-3-1-rules>. In 2025 the European Commission consulted on a further delay to 1 January 2027, the United Kingdom announced its own postponement, and it remained unclear whether the US agencies would proceed with their Basel proposal: Deloitte, “FRTB implementation in the EU: the Commission buys itself time”, <https://www.deloitte.com/uk/en/blogs/ecrs/frtb-implementation-in-the-eu-the-commission-buys-itself-time.html>. The details lie outside this chapter. ↩

6. Federal Council, press release “Federal Council confirms implementation of final Basel III standard with effect from 1 January 2025”, 26 June 2024, <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-101616.html>. ↩

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