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Too Swiss To Fail? The new bank resolution package in Switzerland

ILIAS PNEVMONIDIS, AEDBF Conference, Athens, 6/10/2012



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“There are advantages to size....in the case of the large international banks, the empirical evidence would seem to suggest that these institutions have long exceeded the size needed to make full use of these advantages”

Philipp Hildebrand, Financial Times, June 2009



Switzerland in the aftermath of the UBS crisis

- **Swiss banking sector: 6.6 x Swiss GDP** (2010 data, 1st among OECD member states)
- **Two Swiss SIFIs (CS / UBS): 4.3 x Swiss GDP** (2010 data)
- **Supervisory burden: 2.35 banks per person employed** (2010 data, 2nd among OECD member states)
- **Urgent need for regulatory reforms concerning TBTF**





Principal objectives of the TBTF regulation

- **More and qualitatively better capital**
- **Larger liquidity buffers**
- **Better risk diversification through reduced counterparty risks**
- **Emergency / recovery / resolution planning to simplify SIFIs' complex organizational structures**



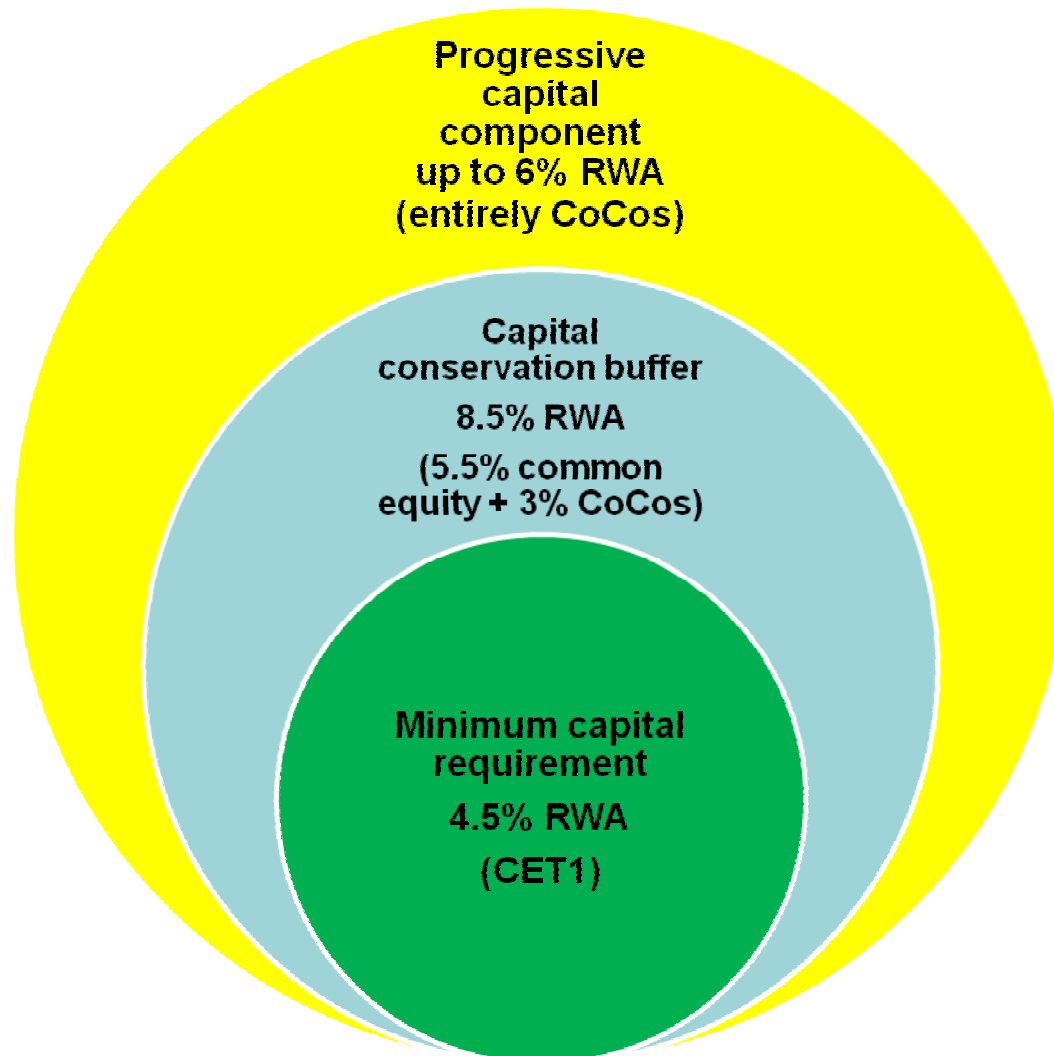


Main amendments in Swiss legislation

- **Swiss Federal Banking Act** (enter into force March 2012)
- **Capital Adequacy Ordinance** (enter into force January 2013)
- **Banking Ordinance** (enter into force January 2013)
- **FINMA Bank Insolvency Ordinance** (project submitted in January 2012)



The new “Swiss Finish”



The new “Swiss Finish”

- **Regulatory capital requirements: 19 % RWA**
 - ≠ (Basel III: 10.5% RWA)
- **Complementary requirements:**
 - a. **Leverage ratio: 4.56% RWA for each SIFI**
 - b. **Maximum exposure to an important counterparty $\leq 25\%$ of the total common equity of the bank**



The Swiss authorities and bank resolution

- **Swiss National Bank (SNB): Identification of the systemic character of a bank**
- **Swiss Financial Market Supervisory Authority (FINMA): responsible for bank resolution actions**
- **Cooperation and information exchange: MoU, January 2011, among the SNB, FINMA and the Federal Department of Finance**





Restructuring and Resolution powers

- **Sale of business to a third party**
- **Bridge bank**
- **Good bank / bad bank**
- **CoCos' conversion or write-down**
- **Statutory bail-in**
- **Statutory debt haircut**



CoCos' conversion / write-down

- **Two triggers:**
 - a. **High trigger for CoCos under the capital conservation buffer (7% RWA): Rapid stabilization of the financial situation of a bank**
 - b. **Low trigger for CoCos under the progressive capital component (5% RWA): Facilitate resolution procedure**
- **Estimated costs for each SIFI: CHF 34 and 24 bln respectively**





Contractual bail-in / debt write-down

- **Crédit Suisse (high trigger, leading to equity conversion):**
 - a. **Issued CoCos twice in February 2011 (CHF 6 bln and \$ 2 bln respectively)**
 - b. **CHF 750 mln in March 2012, \$ 1.725 bln in July 2012**
 - c. **Plans for further issuance in October 2013**
- **UBS (low trigger, leading to debt write-down):**
 - \$ 2 bln in February 2012**



Statutory bail-in / debt haircut

- **Exercised by FINMA**
- **Only after the implementation of contractual bail-in**
- **Exclusion of certain categories of debt**
- **BUT no explicit limits to the powers of FINMA**





Recovery / Resolution planning

- **Emergency plan: safeguard of the systemic functions in Switzerland. Submitted by the SIFI to FINMA and revised every year**
- **Recovery plan: drafted by the SIFI and submitted to FINMA**
- **Resolution plan: drafted by FINMA based on information provided by each SIFI. Actions to be undertaken in case of resolution**
- **Capital rebates for SIFIs improving their resolvability**
- **Sweeping powers of FINMA in case of a SIFI's failure to provide a convincing emergency plan**





Safeguards during the resolution procedure

- **Exclusion of certain categories of debt from bail-in within resolution**
- **Prohibition of contractual cherry-picking**
- **48 hours maximum stay on early termination rights**
- **Compensation for creditors**





Swiss SIFIs are crash-proof.....

- **Swiss responses to the financial crisis were “*swift and effective*” (FSB, Peer Review of Switzerland, 2012)**
- **Very bold package of measures addressing the issue of TBTF**
- **Capital requirements higher than Basel III**
- **Successful marketing of CoCos**
- **Broad range of resolution powers**
- **3 different plans describing recovery and resolution**
- **Clear delimitation of statutory mandates of Swiss authorities**





.....or still fragile giants?

- **Overreliance on CoCos**
- **Doubts regarding conversion / write-down triggers**
- **No provision regarding the creation of resolution funds**
- **No text on liquidity management**
- **Sweeping powers of FINMA during resolution**
- **Unclear requirements regarding emergency / resolution plans**
- **Vague formulation of provisions regarding cross-border cooperation**



THANK YOU FOR YOUR ATTENTION!

