Press release

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FINMA launches regime for small banks and defines new focus for auditing

The Swiss Financial Market Supervisory Authority FINMA has defined a new regime for small banks and launched a pilot phase. Participating institutions must have high levels of capital and liquidity. In return, they will be subject to a substantially less complex regulatory regime. FINMA has also sharpened the risk-oriented focus of regulatory audits carried out by audit firms and revised the relevant circular.

FINMA has moved to intensify the risk orientation and proportionality of regulation by defining a regime for small banks and has launched a pilot phase. FINMA has also made regulatory audits, as carried out by audit firms, more risk-oriented. In future, audit firms appointed by FINMA will be used in a more targeted way. FINMA CEO Mark Branson: "In introducing the regime for small banks and the streamlined audit processes, FINMA is focusing systematically on key risks. The intention is to make regulation and supervision less complex and intensive for smaller, unproblematic institutions."

Extensive interest in the pilot phase

The pilot phase of FINMA's regulatory regime for small banks will begin in July 2018. The new regime is open to banks and securities dealers which have high levels of capital and liquidity and no particularly high risks. The range of prudential requirements to be met by these institutions can then be significantly reduced without jeopardising the overall level of protection. Considerable interest was shown in the regime for small banks. Sixty-seven of the institutions interested in the regime can participate in the pilot phase.

Admission criteria and relaxation will be tested

FINMA drafted the conditions for participation in the pilot phase on the basis of constructive dialogue with industry representatives. These admission criteria will now be tested, and the planned exemptions and relaxations will be reviewed and refined. Participants in the pilot phase must have a simplified leverage ratio of at least 8% (instead of the usual 3%) and an average liquidity coverage ratio of 120% (instead of 90% at present, or

100% from 2019 onwards). Participating institutions must also be free of special risks, particularly conduct and interest rate risks.

Institutions participating in the regime enjoy significantly reduced requirements. They do not, for example, have to calculate a range of key regulatory figures (e.g. risk-weighted assets and the net stable funding ratio), and disclosure requirements are reduced to a minimum. Further simplifications will apply to the qualitative requirements for operational risks, outsourcing and corporate governance. The regime does not, however, contain any relaxation of business conduct rules.

Auditing activities with sharper focus on risk

Audit firms play an important role in FINMA's supervisory activities, acting on its behalf in accordance with specifications it has defined. Regulatory audits are separate from the task of auditing financial statements for shareholders, as required under company law. While developing the new regime for small banks, FINMA reviewed this type of audit with the aim of delivering a sharper focus on key aspects. The partially revised circular 2013/3 “Auditing”, which enters into force on 1 January 2019, will increase the overall effectiveness of audits while also leading to reduced costs in the well-established Swiss system of regulatory auditing.

Fewer but more intensive audits

Regular regulatory auditing will be revised to have a narrower focus, consisting of more in-depth auditing of high-risk areas or focusing on a rotating selection of topics year by year. Small institutions without observable increased risks will also have the opportunity to request two or three yearly audits instead of the current annual audits. To make the audits more meaningful, it will also be possible to take random samples on a risk-oriented basis instead of comprehensively.

Consultation process widely welcomed

The consultation on auditing met with broad interest. Thanks to the improved cost-benefit ratio, supervised institutions were in favour of the consistent focus on risk. FINMA has also taken account of a number of criticisms arising during the consultation. For instance, reduced audit frequency will not be imposed on smaller supervised institutions; instead the boards of directors of such institutions will be able to request it. After three years, FINMA will conduct an impact analysis with a focus on the costs and benefits of the reform.