



# Federal Council adopts dispatch on introduction of a public liquidity backstop for systemically important banks

**Bern, 06.09.2023 - During its meeting on 6 September 2023, the Federal Council adopted the dispatch on the introduction of a public liquidity backstop (PLB) for systemically important banks. The Federal Council had already decided on the key parameters for a PLB to strengthen the stability of the financial sector in March 2022. In March 2023, the PLB was put into force by ordinance as part of the takeover of Credit Suisse by UBS. The PLB and certain provisions of the ordinance that are still required are now to be transferred into ordinary law.**

Systemically important banks fulfil tasks which, if they fail, can cause considerable turmoil in the financial system and significant economic damage. This applies in particular to the deposit and lending business, as well as payment transactions.

## Confidence-building measure already decided in 2022

In order to strengthen the resilience of systemically important banks, the Federal Council and Parliament have increased capital and liquidity requirements and improved the resolvability of these banks in recent years. In 2022, the Federal Council decided on key parameters for the introduction of state-backed liquidity assistance to increase market participants' confidence in the ability of a recapitalised and solvent systemically important bank to survive. A PLB is one of the standard instruments internationally in banking crises: it increases the chances of a systemically important bank's restructuring being successful, thereby contributing to financial stability, and would put Switzerland's systemically important banks on an equal footing with their foreign competitors, thus bridging a gap. The United Kingdom, the United States, the EU, Japan and Canada, among others, have introduced the PLB or a similar instrument.

# Fulfilment of the 2022 mandate and transfer into ordinary law

In the context of overcoming the crisis of confidence at Credit Suisse, the Federal Council used emergency law on 16 March 2023 to introduce the framework for a PLB. This bill is intended to fulfil the Federal Council's mandate from 2022 and to transfer individual provisions introduced in March 2023 with an emergency ordinance into ordinary law. However, among other things, the provisions on the Confederation's loss guarantee to UBS for certain assets that it took over from Credit Suisse have become obsolete. The consultation draft still contained these provisions. UBS has since terminated the loss protection agreement.

## Lump-sum compensation added

During the consultation process, the bill was welcomed by the majority. In order to meet a widely voiced concern expressed in the consultation, the PLB is to be supplemented with lump-sum compensation, which systemically important banks must pay in advance to the Confederation. This lump sum is intended to compensate the Confederation for the risk and mitigate competitive distortions. The lump sum applies regardless of whether a PLB is granted or not. Additional interest and premia are incurred if a PLB is actually drawn down.

At the same time as the bill on the introduction of a public liquidity backstop, work is continuing on the overall review of the too big to fail regulatory framework. The Federal Council will publish a report on this in spring 2024.

### **What is a public liquidity backstop (PLB)?**

A public liquidity backstop (PLB) is a state liquidity provision that is a standard instrument internationally in banking crises. It comes into play when, firstly, the bank's own liquid assets are no longer sufficient to meet its financial obligations and, secondly, the option for the central bank to provide emergency liquidity assistance against collateral has been exhausted. It is then possible, thirdly, for the central bank to provide additional liquidity which is guaranteed by the state as part of a restructuring of the affected bank. The level of the guarantee is defined on a case-by-case basis depending on the circumstances.


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### **Address for enquiries**

Communications  
State Secretariat for International Finance SIF  
Tel. +41 58 462 46 16, [info@sif.admin.ch](mailto:info@sif.admin.ch)

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