AFBS Comment: Revision Liquidity Ordinance

State of Play

The revision of the Liquidity Ordinance enters into force on 1 July 2021. It assures national transposition of the Basel III standards. Foreign banks active in trade and commodity trade finance have approached the AFBS Secretariat with the concern regarding enhanced liquidity requirements imposed by the revised Ordinance and the unlevel playing field vis-a-vis the banks domiciled in the EU.

The Net Stable Funding Ratio NSFR requires banks to reinforce their resilience by increased liquidity coverage of financing business. It imposes long term (minimum twelve months) coverage of a part of banks' exposure, including the short-term ones.

That requirement particularly impacts banks active exclusively in the trade and commodity trade financing. Such transactions tend to be short term (generally up to 90 days) and of high volume, depending on prices and client activity.

The Swiss implementation of the NSFR imposes a required stable funding factor of 50% on all client assets up to six months. This means that trade finance banks need to obtain long-term financing in excess of twelve months while the exposure effectively to be coverd generally has a 30 to 90-day maturity. This results in:

- significant additional financing costs for the bank;
- possibly challenges to raise large amounts of long-term financing for some of them;
- additional risks to be managed (in particular, interest rate risks and a maturity gap as 90 day trade finance transactions are financed with borrowings above one year for banks which do not collect savings), the new regulatory constraint imposing a "reverse liquidity transformation".

In addition, the Swiss implementation leads to a disadvantage for banks in Switzerland compared to their EU competitors. The NSFR as applied in the EU provides for a specific treatment applicable to the trade finance business: the trade finance related exposures with a maturity up to 6 months are subject to a 10% weighing (instead of the 50% one applicable in Switzerland).

Proposal

In order to render re-financing for trade and commodity trade finance business accessible to individual market participants and defend the competitiveness and the leading position of the Swiss banks in this business, the Annex 5 of the Liquidity Ordinance shall be amended as below.

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This modification has two key advantages:

- by reducing the required stable funding generated by trade finance assets (from 50% to 10%), it factors in the specific characteristics of the trade finance business (short maturity, uncommitted facilities) and better aligns the NSFR requirements in terms of refinancing with the economic reality of these activities.
- It puts the Swiss regulatory framework in line with the EU standards, which impose the same 10% required stable funding factor for "trade finance on-balance-sheet related products with a residual maturity of less than six months".

RSF-Kategorie		Gewichtungs-faktor (%)
2.1	Unter Vorbehalt der RSF Kategorie 3.4 lastenfreie und für weniger als sechs Monate belastete Einlagen bei Finanzinstituten sowie Ausleihungen an diese mit einer Restlaufzeit von weniger als sechs Monaten, wenn: a. die Einlagen sowie die Ausleihungen mit Aktiva der Kategorie 1 nach Artikel 15a oder Kategorie 2a nach Artikel 15b besichert sind, und b. die Bank die erhaltenen Sicherheiten während der gesamten Laufzeit der Einlage oder der Ausleihung frei weiter verpfänden kann (rehypothecation).	10
2.2	Lastenfreie Aktiva für die Handelsfinanzierung mit einer Restlaufzeit von weniger als sechs Monaten. "Handelsfinanzierung" (*trade finance on-balance sheet related products*) bezeichnet Finanzierungstätigkeiten im Zusammenhang mit dem Austausch von Gütern und Dienstleistungen durch Finanzprodukte mit festgelegter kurzer Laufzeit, im Allgemeinen weniger als ein Jahr, ohne automatische Verlängerung.	10

Catégories ASF		Coéfficient de pondération (en%)
2.1	Sous réserve de la catégorie RSF 3.4, dépôts non grevés ou grevés pendant une période inférieure à six mois d'établissement financiers et prêts à ces établissements ayant une durée résiduelle inférieure à six mois: a. si les dépôts et les prêts sont garantis par des actifs de la catégorie 1 au sens de l'art. 15a ou de la catégorie 2a au sens de l'art. 15b, al. 1 à 4 et, b. si la banque peut remettre librement en gage les garanties reçues pendant toute la durée du dépôt ou du prêt (rehypothecation).	10
2.2	Actifs non grevés liés des « crédits commerciaux »[1] ayant une durée résiduelle inférieure à 6 mois. [1] Les "crédits commerciaux" (*trade finance on-balance sheet related products*) désignent les financements liés à l'échange de biens et de services par le biais de produits financiers à terme fixe et à court terme, généralement moins d'un an, sans refinancement automatique.	10

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