SwissBanking

Macroprudential policy

Position paper on objectives, instruments and institutional organization

Executive summary

The Swiss Bankers Association (SBA) recognises the need to monitor systemic stability and supports efforts to improve the stability of the financial system. Indeed, one of the main lessons to be drawn from the financial crisis is that there has been insufficient international monitoring of systemic risks, resulting in these being underestimated.

The aim of macroprudential policy is to improve the robustness and stability of the financial system by reducing systemic risks, thereby reducing the likelihood and impact of a financial crisis. The provision of central financial services to business and the population as a whole should be ensured at all times.

Macroprudential policy differs from other policy areas in that it focuses directly on the stability of the financial system as a whole. There are two types of risk to the system that need to be reduced: firstly, that a shock could prove contagious and harm other institutions because the financial system is so inter-related, and secondly, that financial institutions hold correlated risks and hence react to macro-economic shocks in a correlated manner.

Besides macroprudential policy, microprudential supervision, monetary policy and economic policy also have an influence on the stability of the financial system. The aim of macroprudential policy should be to address only those areas of financial stability that cannot be adequately covered by microprudential supervision or other areas of policy. It is essential that macroprudential policy and its objectives are clearly defined and restricted.

With the "Too Big To Fail" package (TBTF) Switzerland is creating an effective instrument to reduce systemic risks. The equity buffer systemically important banks are required to hold already cover a large part of the systemic risks. Another instrument already in place, financial market monitoring, could – if suitably extended – also be a key way of limiting systemic risks.

As far as the anticyclical capital buffer planned under Basel III, for reasons of legal and planning certainty the SBA expects it to be closely governed by rules and that the criteria for activating and deactivating the buffer and determining its size will be set down ex-ante. Unnecessary overlaps between the progressive element of the TBTF bill, the equity requirements under the FINMA circular "The Capital Buffer and Capital Planning" or the revision to accounting rules must be avoided.

The SBA is sceptical about further measures, e.g. tightening capital requirements for mortgage lending. It takes the view that banks' revised self-regulation takes sufficient account of the isolated hot spots in the real estate market, and that it is more effective when banks scrutinise lending carefully than policy to lay down a rule.

At present neither the Swiss Financial Market Supervisory Authority FINMA nor the Swiss National Bank (SNB) has an explicit mandate for macroprudential policy. The institutional structure chosen is decisively depending on the measures chosen. Concerning other criteria for the institutional organization, the SBA has drawn up a list allowing for an in-depth consideration of the possible variants. This is intended to ensure that as far as possible conflicts of interest or objectives are avoided, existing skills and expertise used and duplication and costs kept to a minimum. In the interests of legal certainty the relevant powers of authority must be clearly defined and limited at all times.

As a representative of the financial sector, the SBA expects to be consulted in future government efforts regarding macroprudential policy.