

## POSITION

### The public liquidity backstop

#### In brief

- 1) The public liquidity backstop (PLB) is a central element of the “too big to fail” (TBTF) regulations.
- 2) It serves to safeguard the stability of the system and the continued provision of banking services for customers. There is no automatic entitlement to the PLB, and it is protected by a bankruptcy privilege. It is thus very distinct from a state guarantee in favour of a bank.
- 3) The PLB is not intended to prop up a bank so that it can continue to operate in the same form. Any bank for which the PLB has to be employed must be subject to severe intervention.
- 4) The PLB complements the instruments for restructuring and resolving systemically important institutions, which must meet the requirements set out in the TBTF regulations for this purpose.
- 5) It should be written into Swiss law. If it is not, Switzerland will not enjoy a level playing field compared with the rest of the world in an international financial crisis. The PLB reduces the risk for taxpayers.

**The Swiss Bankers Association (SBA) supports the introduction of a PLB for systemically important institutions. It complements the existing instruments for preserving system stability.**

**Since the PLB is protected by an extensive bankruptcy privilege, there is no automatic entitlement to it, and substantial interest and premiums would have to be paid to the federal government by any institution benefiting from it, there is no obvious justification for imposing an additional “flat fee”.**

#### Explanations

**1) The PLB is a central element of the “too big to fail” (TBTF) regulations.** It is a form of liquidity assistance provided by the Swiss National Bank (SNB) subject to strict requirements being met. It is protected by a bankruptcy privilege in favour of the SNB as well as a default guarantee from the federal government, also in favour of the SNB. The bankruptcy privilege and the strict requirements reduce the residual risk for the government and thus also taxpayers to virtually zero.

**2) It serves to safeguard the stability of the system and the continued provision of banking services for customers. There is no automatic entitlement to it, and it is protected by a bankruptcy privilege. It is thus very distinct from a state guarantee in favour of a bank.** As an integral part of the TBTF regulations, the PLB is a further means of ensuring that customers and taxpayers can receive banking services as well as a means of stabilising the financial system and avoiding damage to the economy as a whole. The high cost of this protection (progressive capital requirements, including very expensive instruments designed to create equity capital in an emergency, as well as progressive liquidity requirements, detailed emergency and resolution plans etc.) is already borne in full by the systemically important banks. If a PLB were to be employed, substantial interest and premiums would additionally be payable to the federal government. The argument that a “flat fee” for the PLB could mitigate any distortion of competition resulting from it was raised after the PLB had already taken shape, but there is no obvious justification for such a fee. A flat fee payable in advance would not be compatible with the fact that there is no automatic entitlement to the PLB.

**3) The PLB is not intended to prop up a bank so that it can continue to operate in the same form. Any bank for which the PLB has to be employed must be subject to severe intervention.** The PLB builds trust and serves to cover temporary liquidity shortages, but only as part of a restructuring at the very least. In addition, employing the PLB would in all likelihood result in the bank’s management being dismissed, called to account and financially penalised by having to pay back past variable remuneration. With this in mind, no bank would want to be in a situation where the PLB is needed.

**4) The PLB complements the instruments for restructuring and resolving systemically important institutions, which must meet the requirements set out in the TBTF regulations for this purpose.** In its planned guise, the PLB can only be used to stabilise systemically important institutions that have credible emergency and resolution plans, very expensive instruments for creating equity capital in place and a resolvable legal structure. The federal government reserves the right to intervene in other crises as it deems necessary in the interests of system stability. The important thing in each case is that use of the PLB is subject to a number of strict prerequisites. These include the public interest, proportionality, the initiation of restructuring at the very least and above all the subsidiarity of liquidity assistance, in particular the full potential of emergency liquidity assistance (ELA) having been exhausted.

**5) The PLB should be written into Swiss law. If it is not, Switzerland will not enjoy a level playing field compared with the rest of the world in an international financial crisis. The PLB reduces the risk for taxpayers.** If the Swiss TBTF regime is not expanded to include the PLB, this fact alone will represent an increased threat to system stability in Switzerland and thus an increased risk for taxpayers in the event of an international financial crisis. The Federal Council therefore stresses, quite rightly, that the PLB is vital to the standard international toolkit for dealing with crises.