Too-big-to-fail factsheet

Liquidity

Systemically important banks (SIBs) must be in a position to meet their payment obligations, even in exceptional stress situations. They must meet special quantitative liquidity requirements in addition to the requirements applicable to all banks. The unprecedented outflows at Credit Suisse and at some US banks have made clear the importance of ensuring comprehensive liquidity in a crisis. Instant and widely disseminated information can lead to rapid and very high liquidity outflows, especially at a bank that is already in crisis. These new circumstances must be taken into account in the further development of the TBTF regime.

Federal Council recommendation

The unprecedented scale and speed of cash outflows at Credit Suisse in 2022 and 2023 mean increased liquidity levels are required. In its report on banking stability of 10 April 2024, the Federal Council therefore proposes a series of measures to ensure comprehensive liquidity. Specifically, the following are necessary:

- the banks themselves hold more liquidity,
- more options for the Swiss National Bank to provide liquidity and
- a public liquidity backstop to avert damage to the country in the worst-case scenario.

Banks' own liquidity

Unlike comparator banks in leading foreign jurisdictions, and unlike the other Swiss banks, SIBs in Switzerland have been required to comply with regulatory basic requirements since 1 January 2024. Together with the newly introduced risk-based, institution-specific additional requirements, SIBs must now hold legally regulated additional liquidity buffers (TBTF liquidity requirements). FINMA defined these institution-specific surcharges. In doing so, it took account of the individual SIBs' risks, such as those from securities financing transactions, financing of a group company or insufficient risk management with regard to liquidity. The surcharges have been communicated to the SNB by FINMA. The surcharge levels will not be published. However, the increase in liquidity requirements will be substantial. The Swiss SIBs will have to hold considerably more liquidity than foreign comparator banks. UBS and other Swiss SIBs have until the end of 2024 to build liquidity. The liquidity levels will then be visible in the SIBs' balance sheets.

Thus the strengthening of the banks' own liquidity levels is already being implemented as the first line of defence for SIBs. The effectiveness of the new provisions must be reviewed by the Federal Department of Finance by the end of 2026.

Liquidity provision by the Swiss National Bank

As part of the implementation of postulate 23.3445 "Review of the SNB's toolkit", the existing legal basis and framework conditions should be reviewed, refined and further developed where necessary. The aim is to expand the potential liquidity provision in a crisis through the Swiss National Bank by utilising both ordinary and emergency facilities.

Public liquidity backstop (PLB)

On 6 September 2023, the Federal Council adopted the dispatch on the introduction of a public liquidity backstop (PLB) for SIBs. It had already decided on the key parameters for a PLB to strengthen the stability of the financial sector in March 2022. The PLB was put into force by ordinance in March 2023 during the takeover of Credit Suisse by UBS. The PLB should now be transferred into ordinary law.

A PLB is one of the standard instruments internationally in banking crises: it increases the chances of a SIB's restructuring being successful, contributes to financial stability and bridges a gap in the existing TBTF regime.