UNOFFICIAL TRANSLATION

Federal Department of Finance
Banking Section of the State Secretariat for International Financial Matters (SIF)

Geneva, December 7, 2021

The French version is authoritative

Statement within the consultation procedure: Liquidity Ordinance (Special Provisions for Systemically Important Banks - Too-big-to-fail)

Dear Sir or Madam,

We refer to your letter of September 30, 2021 and ask you to accept our position on the amendment of the Liquidity Ordinance.

The Swiss Trading & Shipping Association (STSA) is a non-profit and politically neutral association. We represent companies active in commodity trading and shipping, banks that finance trading, as well as related services. Since its foundation in 2014, STSA has been the umbrella organization for the sector in Switzerland, bringing together three regional associations (Geneva, Zug, Lugano) with over 180 members.

Although this revision concerns systemically important banks and their liquidity for a better absorption capacity of liquidity shocks, we would like to raise the following elements of concern for our industry, which we believe should also be reconsidered in the amendment.

We refer in particular to the Net Stable Funding Ratio (NSFR) introduced by the Basel Committee following the financial crisis of 2007-2008 and during the Basel III reform. The NSFR concerns the one-year liquidity. For the implementation of this ratio, the Federal Department of Finance and the FINMA have amended the Ordinance on the liquidity of banks and securities firms, and this amendment came into force on July 1, 2021. However, the implementation of the NSFR ratio as adopted in Switzerland poses a twofold challenge for Swiss banks specializing in Commodity Trade Finance (CTF):

1. The regulation creates a major interest rate risk and funding mismatch for lending banks, which goes against the aim of the Liquidity Ordinance and that of the NSFR. Furthermore, the ratio requires banks to refinance with debt with a maturity of more than one year the loans granted to clients, which in our industry are very short-term (one to three months) and whose amounts fluctuate significantly. These requirements obviously lead to a significant additional cost of refinancing for the banks with, in return, not a reduction of risks, but an increase of risks. Indeed, banks, forced to finance operations

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with a maturity of less than 3 months within one year, are now exposed to the financial risks of such an "anti-transformation".

2. Moreover, given the very specific characteristics of the commodity trading related transactions (very short maturity, mostly less than 30 days, uncommitted credit facilities, transactions secured by physical collateral, etc.), the proportion of Required Stable Funding (RSF) applied to them, i.e., 50% uniformly, is perceived as too high. It is in fact equivalent to that applicable to a six-month firm cash advance without associated collateral. Moreover, the European Union, in its implementation of Basel III, has provided for a special provision for Commodity Trade Finance transactions with a duration of less than 6 months (i.e., the majority of transactions) which sets the weighting and therefore the liquidity requirements associated with these transactions at 10% (instead of 50%). **As a consequence, since July 1, 2021, Swiss banks specialized in commodity trade finance are penalized vis-à-vis European banks (which benefit from requirements 5 times lower), which leads to a distortion of competition between Switzerland and the European Union to the detriment of Swiss banks, even though they are leaders in this sector.**

The Federal Council, in its answer of August 18, 2021 to the parliamentary question raised by Mr. Christian Lüscher (21.1041) on this subject, defended the maintenance at 50% of the ratio applied to Commodity Trade Finance operations by questioning the effective maturity of the operations and the sovereign decision of the banks (absence of obligation) as to their renewal. The players in this market unanimously disagree with these arguments and reaffirm that, in Commodity Trade Finance, transactional credit lines are uncommitted, the contractual maturity of each drawdown or credit operation strictly sets the limits of their commitment, and consequently, of their need for liquidity. There is therefore no reason to overweight these transactions in relation to their maturity, to cover supposedly implicit additional commitments.

As for the question of the distortion of competition highlighted above, it is real and significant and all the more so since most banks active in CTF also operate (via a parent company, another subsidiary or branch) in an EU country, and may thus be tempted to make unfavourable arbitrage for Switzerland. The improvement in the treatment of off-balance sheet contingent liabilities (reduction of the weighting from 5% to 0%) stated in the above-mentioned response of the Federal Council, cannot compensate for the current distortion, given the smaller volume of off-balance sheet liabilities and the relatively small impact of the proposed modification on the overall ratio.

The Federal Council agrees that Switzerland's position in world commodity trade is based on economically advantageous framework conditions. **In order to maintain this advantage and taking into account the secured and short-term nature of these transactions, we request the Confederation to grant commodity trade finance transactions with a maturity of less than 6 months a specific weighting coefficient for the required stable financing (RSF) of 10% (by creating a subcategory 2.2 - Unencumbered assets linked to trade credits with a residual term of less than 6 months in Appendix 5 (Art. 17m)).**

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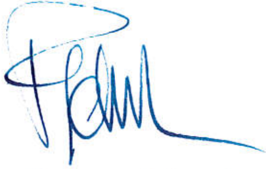
I am convinced that the Confederation will support the development of the Swiss commodity trading and shipping hub in the face of competition from foreign markets. Please accept the assurances of my highest consideration.



Florence Schurch

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