



Berne, 14 December 2017  
Fritz Zurbrügg

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## Introductory remarks by Fritz Zurbrügg

In my remarks today, I would like to address some of the developments currently taking place in the field of financial stability. I shall look at the big banks first before turning to the domestically focused banks. I will conclude with a few words on the new banknote series.

### Big banks

As Thomas Jordan has already noted, the international economic environment has continued to improve since the last news conference in June. Conditions on the financial markets have remained stable. Premia for bank credit default swaps, for instance, have barely changed since June. Premia have thus settled at lower levels again following the turbulence in 2016.

Against this positive backdrop, both of Switzerland's big banks remain on track to meet the requirements of the 'too big to fail' regulations with respect to resilience. This first pillar of the regulations covers requirements pertaining to the going-concern loss-absorbing capacity of systemically important banks. Both Credit Suisse and UBS already comply fully with the final<sup>1</sup>, risk-weighted requirements. However, further improvement is needed with respect to the leverage ratio.

Both of the big banks have also made progress on the second pillar of the regulations, 'resolution', which covers the orderly restructuring and wind-down of a bank that can no longer function as a going concern and is thus deemed to have become a gone concern. With a view to managing such a crisis scenario, Credit Suisse as well as UBS have increased their gone-concern loss-absorbing capacity by issuing further bail-in instruments, which can be converted into equity in the event of impending insolvency. As we explained in our *Financial Stability Report* published in June, since the 'too big to fail' regulations came into force,

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<sup>1</sup> Final requirements refer to the requirements that will apply after expiry of all transitional provisions, and in particular to the qualitative requirements for going-concern capital.



## News conference

Credit Suisse and UBS have also taken important organisational steps to improve their resolvability. Despite these positive developments, the two big banks still need to make further progress if they are to fully comply with the second-pillar requirements. This applies both to their gone-concern loss-absorbing capacity and their resolution planning.

Full compliance with all of the ‘too big to fail’ requirements will further strengthen the big banks’ going and gone-concern loss-absorbing capacity as well as improve their resolvability in a crisis. Both of these sets of requirements must be addressed if Switzerland’s ‘too big to fail’ problem is to be solved.

### **Domestically focused banks**

I would now like to turn to the domestically focused banks. These institutions’ biggest risks continue to stem from the mortgage and real estate markets. I will make three points in this regard.

First, imbalances on the mortgage and real estate markets persist. Although mortgage growth has remained relatively low in 2017 – as in the previous year – developments on the real estate market show a somewhat different picture: price growth in the residential property segment<sup>2</sup> had been falling since 2013, but recently transaction prices have started to pick up again. Moreover, with the exception of a few quarters (including the third quarter of 2017), prices in the residential investment property segment have risen markedly since 2013. As prices over this period have increased more strongly than fundamentals such as rents, risks have accumulated in this segment; it is thus especially vulnerable to a substantial correction in the medium term. This situation is compounded by brisk construction activity in the rental apartments segment, which could lead to oversupply. Signs of this can already be seen in rising vacancy rates.

Second, the risk appetite of domestically focused banks remains high. This is particularly evident from the affordability risk data. The share of new mortgages with high loan-to-income ratios has risen significantly in recent years and has reached a historical high. The interest rate risk of domestically focused banks likewise remains high, while their interest margin continued to decline in the first half of 2017. As long as there is pressure on margins, incentives for domestically focused banks to increase risk-taking will remain substantial.

Third, notwithstanding the risks in the macroeconomic environment and the banks’ high risk appetite, SNB stress tests continue to suggest that, overall, domestically focused banks’ resilience remains adequate. Thanks to robust capitalisation, most of these banks would be able to absorb the losses likely to be incurred in adverse scenarios; given the risks I have outlined, this is welcome. In the future, too, it will be decisive for the stability of the financial system that banks hold sufficient capital to cover the risks on their books – irrespective of ongoing margin pressure.

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<sup>2</sup> Single-family houses and privately-owned apartments.

## News conference

The SNB will continue to monitor developments on the mortgage and real estate markets closely, paying particular attention to the residential investment property segment as well as to risks emanating from mortgage lending. In parallel, it will continue to regularly reassess the need for an adjustment of the countercyclical capital buffer.

## Ninth banknote series

Allow me to close with a few remarks about the new banknote series. This year, the SNB issued two further denominations: the new 20-franc note was released in May and the new 10-franc note in October. So, half of the denominations in the new banknote series have now entered circulation. I am happy to report that things have been progressing well and the issuance of the new banknote series has been very smooth so far. To date, returns of eighth-series banknotes to the SNB have also been in line with our expectations.

As announced, the next denomination, the 200-franc note, will be issued in autumn 2018. The 1000-franc note and the 100-franc note will follow in 2019. The SNB will announce the precise issue dates well in advance.