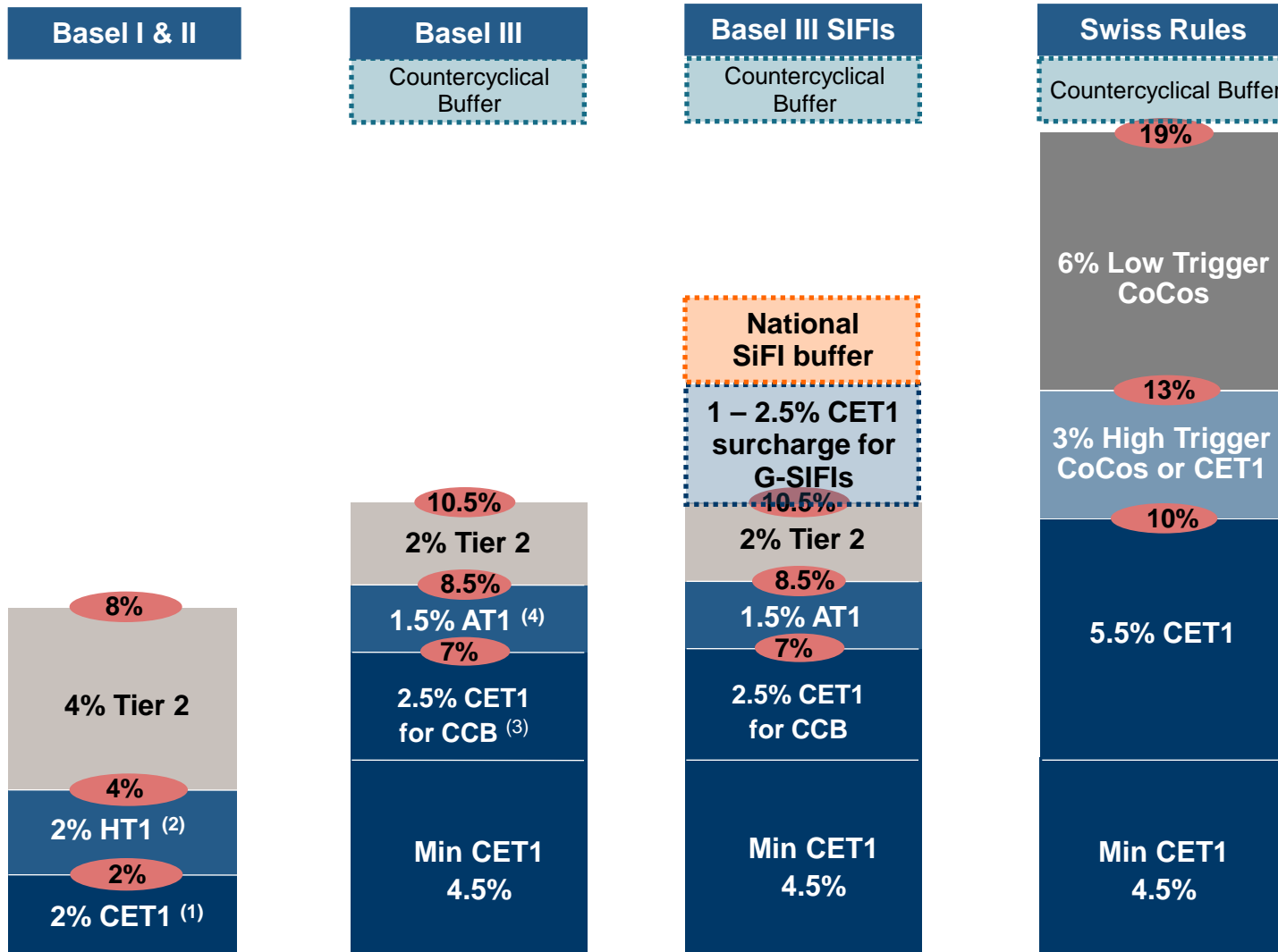


UFSP Finanzmarktregulierung

Implementierung von Basel III – Erfahrungen aus der Praxis

Volker Bätz
June 3, 2014

Capital Requirements in Comparison



Source: BCBS, Swiss Expert Commission

Note 1: CET1 means Common Equity Tier 1

Note 2: HT1 means Hybrid Tier 1

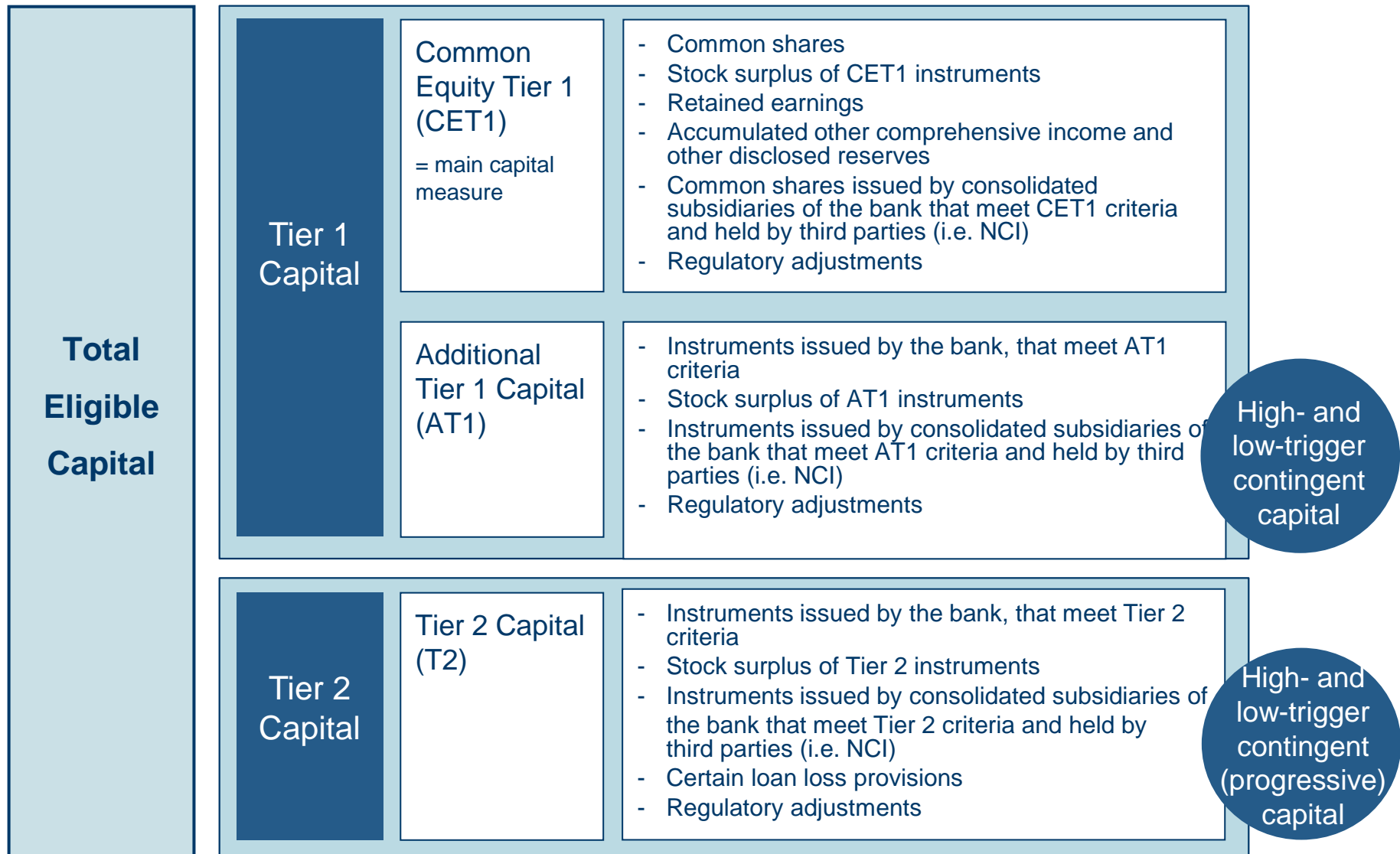
Note 3: CCB means Capital Conservation Buffer

Note 4: AT1 means Additional Tier 1

The Basel 3 Capital Model

- **Characteristics** of the Capital under Basel 3
 - 3 Layers: CET 1, Tier 1 and Total Capital
- **Capital instruments under Basel 3:**
 - Ability to absorb losses on a going concern basis
- **New Deductions** under Basel 3 and change in treatment
 - None-Threshold and Threshold based
 - Deduction from CET 1 rather than 50/50 from Tier 1 or Tier 2
- **Transitional arrangements**
 - Phase out of existing «old styled» capital instruments starting Jan 2013
 - Phase in of deductions into CET 1 starting Jan 2014
- **Glidepath** of regulatory minimum requirements starting in Jan 2013 through Jan 2018:
 - CET 1 requirement: minimum, conservation buffer and G-SiFi surcharge
 - Minimum Tier1 and Tier 2 requirements
- **Leverage Ratio:** Basel 3 includes the introduction of an «unweighted» leverage capital constraints
 - Bank-level reporting has begun to national supervisors / public disclosures in 2015
 - Finalization of definition of exposure measure, relevant layer of capital and overall calibration of minimum requirement expected by 2017 with a view to migrating to a minimum capital requirement by Jan 2018.
- **Swiss SiFi rules as “parallel regime”:**
 - Swiss SiFi rules in principle follow Basel 3 concepts but build up of regulatory minimum capital is front-loaded
 - Capital components are CET1, high trigger CoCos and low trigger CoCos
 - Swiss SiFi rules further introduce the un-weighted Leverage Ratio constraint by Jan 2013

Capital Constituents under Basel 3



Main Capital Deductions from CET1 under Basel 3

Regulatory adjustment

Goodwill and Intangible Assets

Investments in Banking, Finance and Insurance entities <10%

Investments in Banking, Finance and Insurance entities >10%

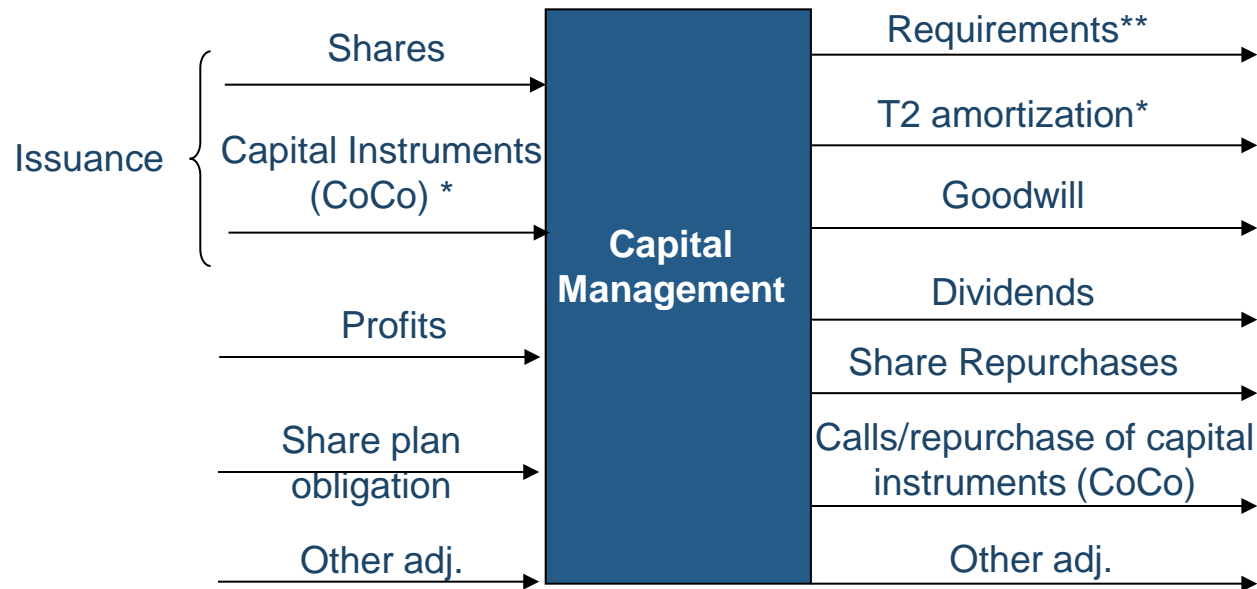
Deferred Tax Assets (DTA)

Unrealized gains and losses from own credit

Treatment under Basel 3

- Full deduction from Common Equity Tier 1 Capital (CET1)
- Mortgage Servicing Rights are excluded from Intangible Assets and subject to a 10%/15% threshold calculation
- The portion exceeding 10% of the bank's CET1 Capital has to be deducted, the portion below is risk-weighted
- The entire investment has to be deducted if it does not constitute of common shares
- Investments in common shares are subject to a 10%/ 15% threshold calculation (250% RW if not deducted)
- DTA from net operating losses are fully deducted from CET1
- DTA from timing differences are subject to a 10%/15% threshold calculation (250% RW if not deducted)
- Not included in CET1

Tools to Manage Capital



* Issuance of Capital instruments compliant with Basel and Swiss regulatory requirements with a high or low trigger and consistent with Additional Tier 1 or Tier 2 requirements

** Can decrease by reducing RWA, securitization, sale of assets (IT, RE, other), restrict growth

Regulatory Capital Maze

	Basel III RWA (Look through)	Basel III RWA (Transition)	Basel III LR (Look through)	Basel III LR (Transition)	CH TBTF RWA (Look through)	CH TBTF RWA (Transition)	CH TBTF LR (Look through)	CH TBTF LR (Transition)	CH FINMA Multiple	Subsidiaries
Group (consolidated)	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Bank (consolidated)	✓	✓			✓	✓	✓	✓	✓	
CS Parent	✓	✓			✓	✓	✓	✓		✓
Subsidiaries	(✓)	(✓)	(✓)	(✓)						

- Multitude of capital measures
 - National implementation of Basel standard is different in each country
 - Speed of implementation differs from country to country; market focus on look through calculation
- Simple tools like Leverage Ratio become complex;
 - Too many definitions
- “Overlapping” tools create conflicts in day to day management

Alignment of Liquidity Management to regulatory environment

- Increased trend towards regional entities liquidity management
 - CH: Focus on parent reporting MIS based 30 day
 - UK: PRA Self Sufficiency / Modification UK entities MIS based 120 day
 - US: FED CLAR* (i.e. self sufficiency of US entities) MIS based 90day/1y
 - APAC: being implemented MIS/LCR based
- NSFR fully implemented – binding from 1Jan 2018
- Swiss LCR legislation
 - Implementation date Jan 1, 2015 (100% for G-SIFIs, other banks at 60% and phase-in till 2019)
 - Areas of National Supervisory Discretion being currently evaluated by FINMA
 - Off-B/S and non-contractual commitments
 - Matching of foreign currencies
- Liquidity Program core capabilities completed
 - 2014 Focus on implementation of strategic Database and new/consolidation of Regulatory Requirements

*CLAR = Comprehensive Liquidity Analysis Review (Annual FED evaluation of liquidity management for large US and Foreign Banking Organizations)

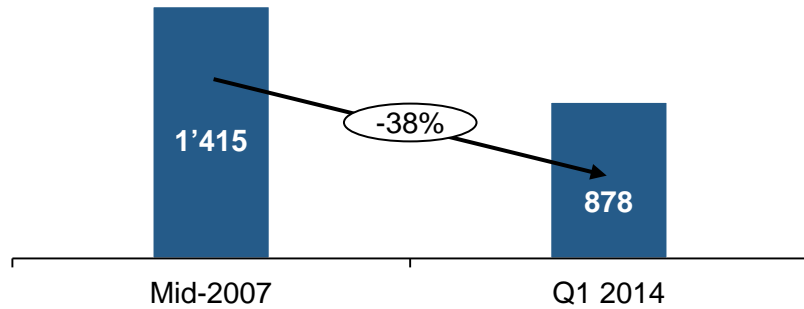
Comprehensive Liquidity Management Framework on global and regional level

Analysis	Tool/Report	Scope
Credit Suisse prepared for early Basel III compliance	<ul style="list-style-type: none"> Net Stable Funding Ratio Liquidity Coverage Ratio 	<ul style="list-style-type: none"> Group Group, Parent, specific entities
Credit Suisse specific liquidity stress	Credit Suisse specific liquidity barometer	Group, specific entities
Combination of Credit Suisse specific and systemic market stress	Credit Suisse systemic liquidity barometer	Group, specific entities
Additional Stress Tests: <ul style="list-style-type: none"> Short-term (up to 30 days) Systemic stress scenarios 	<ul style="list-style-type: none"> Liquidity Stress Reporting (LSR) FX Scenarios Combined Stress Scenarios 	Group, specific entities

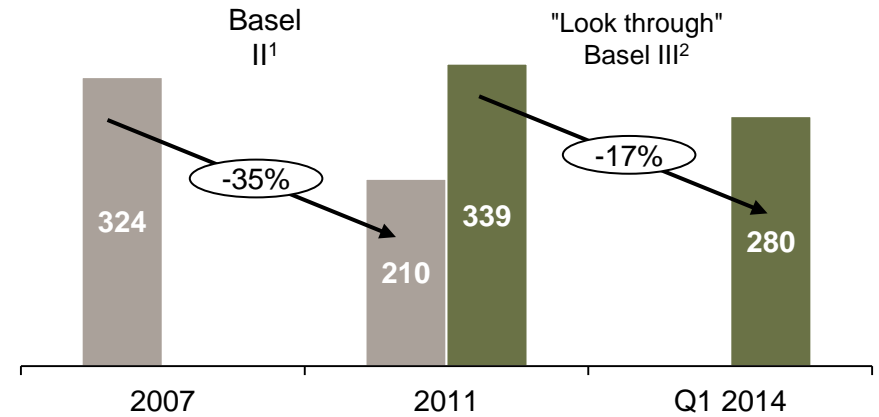
Too Big to Fail – Swiss Legislation Is Working

Credit Suisse with strong equity ratio and reduced risk

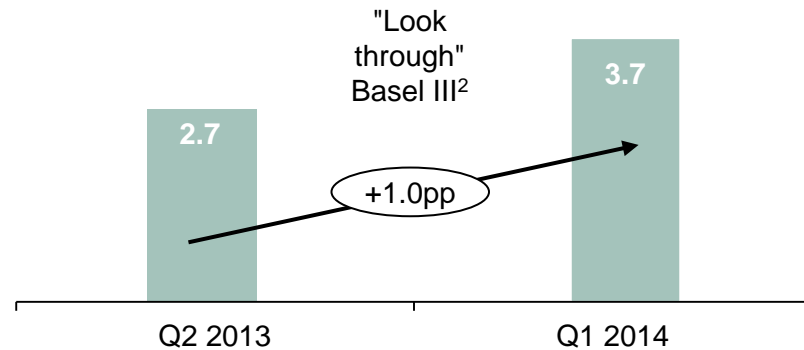
Balance sheet assets
(in CHF bn)



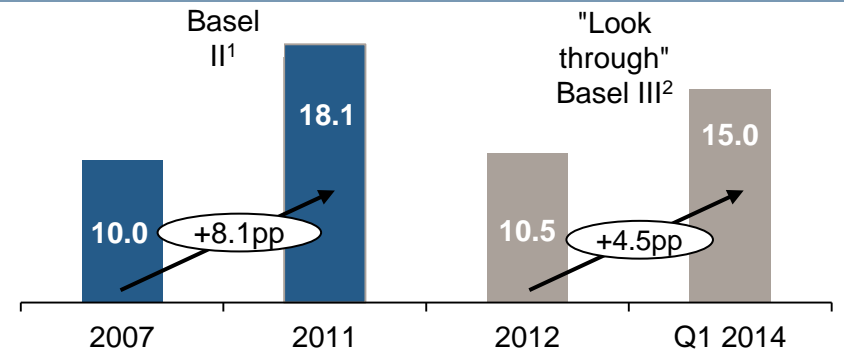
Risk-weighted assets (in CHF bn)



Swiss SIFI Basel III Leverage Ratio
(in %)



Tier 1 Capital Ratio & Total Capital (in %)



¹ Core capital ratio; ² Swiss Total Capital (incl. CoCos)
Source: Credit Suisse First Quarter Results 2014, April 2014