

Solvency risk of counterparties in the interbank sector

NOTES

I. SURVEY CHARACTERISTICS

PURPOSE OF SURVEY

The survey of counterparty solvency risk in the interbank sector (ARIS) is aimed at analysing the interlinkages in the interbank sector, with a view to the identification and ongoing monitoring of systemic risks.

COVERAGE

Recording of the ten or twenty largest claims and liabilities positions vis-à-vis other banks or bank groups in Switzerland and abroad.

BASIS OF SURVEY

The survey is based, in principle, on the risk diversification provisions in arts. 95 et seq. CAO.¹

TYPE OF SURVEY

Partial sample survey

REPORTING INSTITUTIONS

All banks and bank groups, excluding foreign bank branches in Switzerland.

REPORTING ENTITY

Reporting takes place at the highest entity level to which the risk diversification requirements apply, i.e. institutions subject to risk diversification requirements (consolidation requirement) in accordance with art. 7 CAO are required to report counterparty solvency risk on a consolidated basis.

FREQUENCY

Quarterly

DEADLINE

The submission deadline is six weeks after the reference date.

¹ Ordinance on Capital and Risk Distribution for Banks and Securities Firms (Capital Adequacy Ordinance, CAO, SR 952.03).

SPECIAL PROVISIONS

If the conditions set forth in art. 5 para. 2 NBO² are fulfilled, the deadline may be shortened to 24 hours.

II. GENERAL REMARKS

1. REPORTING ITEMS AND REPORTING FORMS

1.1 SUBJECT OF REPORTING

ARIS reporting involves surveying claims and liabilities vis-à-vis individual domestic and foreign banks or bank groups. Institutions add up their total claims and liabilities positions per counterparty (cf. section 1.6) and report the 10 largest counterpart positions (20 for big banks), as follows:

AR11: Amounts due from banks or bank groups domiciled in Switzerland

AR12: Amounts due from banks or bank groups domiciled abroad

AR13: Amounts owed to banks or bank groups domiciled in Switzerland

AR14: Amounts owed to banks or bank groups domiciled abroad

1.2 COUNTERPART POSITIONS TO BE REPORTED

1.2.1 POSITIONS ON CLAIMS SIDE: ACTUAL AMOUNTS DUE AND LIMITS

The claims side covers the actual amounts due and the associated (internal) credit limits. The following figures are therefore to be reported in forms AR11 and AR12:

Lines 01–10 (01–20 for big banks): the (internal) limits (col. 03) and
the actual amounts due (col. 04)

Line 21: the total of all (internal) limits (col. 03) and
the total of all actual amounts due (col. 04)

If no limit has been set, or if the actual amount due exceeds the relevant limit, the actual amount due must be reported in both columns.

The total (line 21) represents the sum of all relevant counterpart positions as it would be reported, without a limit on the 10 (20) largest counterpart positions and without taking the insignificance threshold into consideration (cf. section 1.4).

1.2.2 POSITIONS ON LIABILITIES SIDE: ACTUAL AMOUNTS OWED

The liabilities side covers only the actual amounts owed, without any additional information on limits. The following figures are therefore to be reported in forms AR13 and AR14:

Lines 01–10 (01–20 for big banks): the actual amounts owed

Line 21: the total of all actual amounts owed

The total (line 21) represents the sum of all relevant counterpart positions (analogous to the claims side, cf. above).

1.3 CALCULATION OF COUNTERPART POSITIONS

1.3.1 CALCULATION OF ACTUAL AMOUNTS DUE

In terms of size and calculation, the reportable position for actual amounts due is determined by the risk diversification requirements in the CAO (particularly art. 96). However, in contrast to the risk diversification requirements in the CAO, the position is not weighted. Art. 113 para. 2 CAO therefore does not apply. Moreover, exposures to risk mitigation providers according to FINMA Circular 2019/1, 'Risk diversification – banks', margin nos. 89–94 (referred to as indirect positions from credit risk mitigation) are not to be included.

² Ordinance to the Federal Act on the Swiss National Bank (National Bank Ordinance, NBO, SR 951.131).

Off-balance-sheet transactions are included on the claims side. This anticipates the (potential) future status as a claim or a financial instrument as well as the associated credit risk – in the interest of presenting the credit risk pursuant to art. 48 CAO as comprehensively as possible. On the liabilities side, off-balance-sheet operations are not taken into account in ARIS reporting.

On the claims side, the amounts for off-balance-sheet operations must be converted into their credit equivalent as stipulated in the CAO, but not weighted. The credit conversion factors should be calculated as set down in art. 115 CAO (for derivatives) and art. 117 CAO (for contingent liabilities and irrevocable commitments). Questions concerning the allocation of specific business to off-balance-sheet transactions in accordance with the CAO must be resolved by the reporting institutions with their audit firms.

1.3.2 CALCULATION OF ACTUAL AMOUNTS OWED

Since the CAO provides no direct basis for calculating liabilities, the reportable actual amounts owed are defined using FINMA's³ bank accounting and financial reporting regulations. The counterpart position for each counterparty is limited to the following balance sheet positions or sub-positions:

- Amounts due to banks
- Liabilities from securities financing transactions
- Loans from central mortgage bond institutions
- Trading portfolio liabilities

For the above positions, the corresponding transactions, recorded under 'Liabilities from other financial instruments at fair value', should also be included. The corresponding counterpart positions are reported at book value. Balance sheet positions not listed in this section and off-balance-sheet positions are excluded. For example, amounts due to entities that belong to a banking group but do not have a banking licence themselves – recorded under the balance sheet position 'Amounts due in respect of customer deposits' – are to be excluded.

If a bank prepares its financial statements in accordance with an international accounting standard recognised by FINMA, the corresponding valuation rules may also be applied to the calculation of counterpart positions for ARIS reporting.

Liabilities from the trading portfolio or from securities short positions must be allocated to the relevant counterparty⁴ (or the associated ARIS counterparty),⁵ and not to the issuer of the traded security. For exchange-based transactions, the relevant stock exchange is deemed to be the counterparty.

Background: For ARIS counterpart positions, only the purchaser/seller is relevant, not the issuer of the security. If the reporting institution were to default, the counterparty cannot hold the issuer liable – this is the key aspect for the ARIS survey.

Where the use of the accounting regulations renders it impossible to report positions broken down by counterparty (e.g. if securities short positions are netted per issuer and irrespective of the counterparty), these positions should not be included in the calculation of the counterpart position.

1.4 INSIGNIFICANCE THRESHOLD

If a counterpart position amounts to less than CHF 1 million and, additionally, represents less than 4% of the reporting institution's core capital after deductions in accordance with arts. 31–40 CAO, it is deemed to be insignificant and need not be reported. The decisive criterion is the size of the actual position.

³ FINMA Accounting Ordinance (RelV-FINMA; SR 952.024.1) and 2020/1 FINMA Circular 'Accounting – banks' (FINMA Circ. 20/1).

⁴ According to FINMA Circ. 20/1, Annex 1, margin nos. 91–92, the details of the counterparty must be known. "2.4 Trading portfolio liabilities:

– All short positions relating to the instruments recorded in item 1.6 *Trading portfolio assets*;

– Liabilities recognised according to the trade date accounting principle in respect of short positions relating to spot short sales, after netting per security and per counterparty for OTC transactions. If, in the case of on-exchange transactions, delivery versus payment is planned, netting per security is permitted."

⁵ For example: In the case of a securities short transaction which was settled by a third party and covered by a borrowing transaction with a lender, the lender is deemed to be the counterparty.

1.5 RANKING ON THE REPORTING FORM

Positions must be listed on the form in order of decreasing size; the decisive criterion is the size of the actual amounts due/owed.

1.6 ARIS COUNTERPARTIES

All domestic and foreign banks or bank groups which can act as direct counterparties are either themselves an ARIS counterparty or are assigned to an ARIS counterparty as part of a group. An ARIS counterparty can thus either be an individual bank or can represent a bank group.

1.6.1 DEFINITION OF COUNTERPARTIES

In the case of pure bank groups, the ARIS counterparty is normally the highest group level. However, within conglomerates there may be multiple ARIS counterparties at a subordinate level which mainly cover the group's banking activities. The aim in defining the ARIS counterparty within a conglomerate is, as far as possible, to cover only the unit or units that operate predominantly in the banking sector.

Positions vis-à-vis central banks, multilateral development banks and financial market infrastructures are not to be reported unless they feature in the list of counterparties (cf. section 2).

1.6.2 SCOPE OF COUNTERPARTIES

All relevant positions which are held vis-à-vis the ARIS counterparty and/or its subsidiaries must be included in the counterpart position to be reported. This means that, where necessary, positions vis-à-vis subsidiaries which are not banks should also be included.

Positions vis-à-vis fellow companies of ARIS counterparties are not included. If they operate in the banking sector, separate ARIS counterparties will be created, and otherwise they will not be surveyed.

Counterparties which are required, but which are still missing, are checked and added after disclosure (cf. section 2.3).

2. INFORMATION ON THE SURVEY DOCUMENTS

2.1 LISTS OF DOMESTIC AND FOREIGN COUNTERPARTIES

Pick lists assigning a unique AR code to each counterparty are available for both domestic and foreign ARIS counterparties.

2.2 ATTRIBUTION LIST

The 'Attribution list' assigns all banks in Switzerland to a domestic or foreign ARIS counterparty. For foreign banks, the attributions to the correct ARIS counterparty must be made by the reporting institutions themselves.

2.3 ADDITIONAL REPORTING OF MISSING COUNTERPARTIES

Counterparties which need to be reported but are not themselves on the list of ARIS counterparties and cannot be attributed to an ARIS counterparty must be disclosed to the SNB using the separate Excel spreadsheet provided for this purpose (available at emi.snb.ch/en/emi/ARIS) via eSurvey (upload under 'Comments and documents') with the subject line 'Code – ARIS Update FORCPL – Reference date'.

For the current survey exercise, the relevant positions in lines 01 – 10 (01 – 20 for big banks) should not be reported. These relevant positions should, however, be included in the total (line 21). The SNB will add the missing counterparty to the list of foreign counterparties before the next survey exercise.

2.4 TECHNICAL INFORMATION

Approximately two weeks before the reference date, the updated lists of domestic and foreign counterparties will be available for download as Excel spreadsheets via the following link: emi.snb.ch/en/emi/ARIS.

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Swiss National Bank
Statistics
P.O. Box, CH-8022 Zurich
Telephone +41 58 631 00 00

Questions on data deliveries

esurvey.support@snb.ch

Questions on surveys

statistik.erhebungen@snb.ch

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SNB surveys are available at www.snb.ch,
The SNB/Statistics/Surveys/Survey
documents.