New regulatory requirement: independent review of banking/trading book allocation

As a new requirement, banks in Switzerland must perform an **annual independent review** of their regulatory **allocation between the banking and the trading book**. This has been introduced by the new Basel III Final rules. Banks can conduct this review internally if certain criteria are met or engage us to perform this mandatory review.

What is required?

All banks in Switzerland[1] must review the regulatory allocation of positions between the banking book and the trading book on an annual basis according to article 2 paragraph 3 of the TBEO-FINMA[2].

- For **larger institutions** (cat. 1 - 3) the review can be performed by an internal audit or by a licensed regulatory audit firm.
- **Smaller institutions** can alternatively conduct the review by an independent function (e.g. risk control) or by a licensed regulatory audit firm.

The review requires a solid understanding on the specific Basel III Final rules on market risk and must be properly documented for regulatory purpose.

[1] The review is also relevant for small banks regime banks in the context of interest rate risk in the banking book management.
[2] Legal sources: FINMA-Ordinance on the Trading Book and Banking Book and Eligible Capital of Banks and Securities Firms (TBEO-FINMA) art. 2 para. 3 and Capital Adequacy Ordinance (CAO) art. 4b et. seq.

Why it matters – and where the challenge is

The regulatory allocation between the banking and trading book has a **direct impact on RWA and required capital**. Banks must **track and justify every allocation and reallocation** — as well as maintain own policies and ensure appropriate FINMA communication (depending on supervisory category).

Key challenges:

- Ensuring that the allocation criteria according to Capital Adequacy Ordinance are **correctly interpreted and consistently applied**.
- Defining and maintaining a clear internal policy governing initial allocation and how it is applied in practice.
- Tracking and documenting **any changes** that affect the original booking decision.

Our Service – PwC can support you

We can perform this independent review as part of our ordinary regulatory audit – efficiently, in line with regulatory expectation and tailored to your institution. Please feel free to reach out. We are happy to support you in meeting this new requirement.

Reach out to us to discuss your needs:
PwC Regulatory Banking Services

Any questions? Reach out to our specialists:


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