SPACE FINANCIAL SERVICES AUTHORITY

SFSA

INTERIM GUIDANCE NOTE

IGN-005

Capital Adequacy Framework for SFSA-Authorised Banks

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Applies to	SFSA-Authorised Banks and full-service financial institutions
Read alongside	SFSA IGN-001 Sections 5.1–5.4; IGN-003

Executive Summary

This Interim Guidance Note (IGN-005) establishes the capital adequacy framework applicable to SFSA-Authorised Banks and full-service financial institutions. It supplements the minimum capital requirements set out in IGN-001 Section 5, providing a detailed framework for assessing, maintaining, and reporting capital adequacy — calibrated to the specific risk profile of institutions serving the space economy.

IGN-005 covers: the SFSA capital adequacy philosophy; Pillar 1 — minimum capital requirements by risk type; Pillar 2 — the Internal Capital Adequacy Assessment Process (ICAAP); Pillar 3 — disclosure and reporting; capital buffers; and specific capital treatment for novel space economy exposures including in-space asset financing, launch contract exposure, and satellite constellation financing.

PLAIN TERMS In plain terms, this note answers three questions: how much capital you must hold (Pillar 1); how you check that is enough for your real risk (Pillar 2 / ICAAP); and what you must disclose publicly about it (Pillar 3) — plus specific rules for in-space financing, launch contracts, and satellite constellations.

NOTE The SFSA capital adequacy framework is designed to be complementary to applicable national capital requirements (FINMA for Swiss entities, Bank of Lithuania for Lithuanian entities, etc.). Where national requirements are more stringent, national requirements prevail. The SFSA framework provides a floor and a sector-specific overlay — it does not substitute for national prudential supervision.

NOTE During the FINMA sandbox phase, Space Bank AG is not subject to the standard banking capital adequacy requirements under Swiss law. However, the SFSA expects Space Bank AG to operate in compliance with this IGN voluntarily from day one — as both good practice and a demonstration of regulatory readiness for the FINMA FinTech licence application.

Section 1 — Capital Adequacy Philosophy

1.1 Purpose of Capital

Capital serves three essential functions for a regulated financial institution: it absorbs unexpected losses, protecting depositors and creditors; it provides a buffer against operational disruption, ensuring continuity of services; and it signals financial soundness to clients, counterparties, and regulators, underpinning confidence in the institution.

For space economy financial institutions specifically, capital adequacy carries additional significance. The space economy client base includes pre-revenue companies, novel asset classes with uncertain valuations, and transactions in regulatory jurisdictions that do not yet exist. The risk of unexpected loss is structurally higher than in conventional banking, and the capital framework must reflect this.

1.2 The Three-Pillar Structure

The SFSA capital adequacy framework follows the Basel III three-pillar structure, adapted for the scale and complexity of space economy financial institutions:

- Pillar 1 — Minimum Capital Requirements: quantitative minimum capital requirements calculated against credit risk, market risk, and operational risk exposures
- Pillar 2 — ICAAP: the institution's own assessment of whether its capital base is adequate for its actual and projected risk profile, including risks not captured by Pillar 1
- Pillar 3 — Disclosure: public disclosure requirements enabling clients and counterparties to assess the institution's capital adequacy

PLAIN TERMS Three questions, borrowed from international banking practice (Basel III) and scaled for a sector this young: How much capital is the legal minimum? (Pillar 1) Is that actually enough for your specific risks — you tell us, and show your work. (Pillar 2 / ICAAP) What do you have to tell the public about it? (Pillar 3)

Section 2 — Pillar 1: Minimum Capital Requirements

2.1 Minimum Capital by Institution Type

The following minimum capital requirements apply to SFSA-Authorised institutions, in addition to any applicable national minimum capital requirement:

Institution Type	SFSA Minimum Capital	Notes
Full SFSA-Authorised Bank	CHF / € 1,000,000	Minimum at all times — fully paid in
SFSA-Authorised Payment Institution	CHF / € 300,000	Minimum at all times
SFSA Sandbox Entity	CHF / € 100,000	During sandbox phase only
SFSA-Authorised Bank (assets > CHF 50M)	CHF / € 5,000,000	Applies when total assets exceed CHF 50M
SFSA-Authorised Bank (assets > CHF 250M)	CHF / € 20,000,000	Applies when total assets exceed CHF 250M

2.2 Credit Risk Capital — Standard Approach

SFSA-Authorised Banks must hold minimum capital against credit risk exposures. The SFSA adopts a simplified standardised approach, with space economy-specific risk weightings:

Exposure Category	Risk Weight	Capital Requirement (8% of RWA)
Cash and central bank deposits	0%	0%
OECD sovereign exposures	0%	0%
Non-OECD sovereign exposures	100%	8%
OECD bank exposures	20%	1.6%
Non-OECD bank exposures	100%	8%
Corporate exposures — established (revenue-generating)	100%	8%
Space economy corporate — pre-revenue startup	150%	12%
Space economy corporate — pre-launch (launch not yet occurred)	175%	14%
In-space asset secured lending (orbital assets as collateral)	200%	16%
Launch contract financing	175%	14%
Satellite constellation financing	150%	12%
Space tourism receivables	125%	10%

Exposure Category	Risk Weight	Capital Requirement (8% of RWA)
In-space resource extraction — exploration phase	200%	16%
Retail exposures	75%	6%
UHNW private banking (>CHF 5M)	100%	8%
Equity exposures in space economy companies	250%	20%

GUIDANCE The elevated risk weights for pre-revenue and pre-launch space economy exposures reflect the genuine novelty and binary risk profile of these assets — a satellite that has not yet launched has a very different risk profile to one generating revenue. As the space economy matures and loss data becomes available, the SFSA will review and refine these weightings.

2.3 Market Risk Capital

SFSA-Authorised Banks must hold capital against market risk in their trading books, including:

- Foreign exchange risk — space economy transactions are frequently multi-currency; FX risk must be capitalised at 8% of net open position
- Interest rate risk in the trading book — standard approach applies
- Equity position risk — holdings in space economy companies are capitalised at 8% of gross position plus a specific risk charge of 8% for unlisted space economy equities
- Novel asset risk — any position in orbital assets, satellite capacity rights, spectrum rights, or in-space resource extraction rights that does not have an established market price must be capitalised at a minimum specific risk charge of 15% of carrying value, in addition to any general market risk charge

2.4 Operational Risk Capital

SFSA-Authorised Banks must hold capital against operational risk. The SFSA adopts the Basic Indicator Approach (BIA) adapted for space economy institutions:

- Standard BIA: 15% of average annual gross income over the last 3 years (or available years if fewer than 3)
- Space economy operational risk add-on: an additional 5% of average annual gross income to reflect the novel operational risks inherent in serving the space economy — including technology failure risk, dual-use technology compliance risk, and jurisdictional complexity risk
- Total operational risk capital requirement: 20% of average annual gross income

Section 3 — Pillar 2: Internal Capital Adequacy Assessment Process (ICAAP)

3.1 ICAAP Requirement

Every SFSA-Authorised Bank must conduct an annual ICAAP — a forward-looking, comprehensive assessment of whether its capital base is adequate for its actual and projected risk profile, including all material risks whether or not captured by the Pillar 1 framework. The ICAAP must be approved by the Board and submitted to the SFSA Secretariat as part of the Annual Regulatory Report.

3.2 ICAAP — Required Components

The SFSA ICAAP must address the following components at minimum:

A — Business Model and Strategy Assessment

- Description of the institution's business model and strategic plan for the next 3 years
- Assessment of the viability and sustainability of the business model — including key vulnerabilities and dependencies
- Analysis of how the business model is evolving and what capital implications those changes create

B — Risk Identification and Assessment

- Comprehensive inventory of all material risks — credit, market, operational, liquidity, reputational, legal, compliance, and strategic
- For each risk: an assessment of the probability of crystallisation, the potential severity of loss, and the effectiveness of existing controls
- Space economy-specific risk assessment — explicitly addressing the five novel risk categories in IGN-003 Section 1.2 and their capital implications
- Assessment of concentration risk — sector concentration (space economy), geographic concentration, and single-counterparty concentration

C — Capital Planning

- Baseline capital plan — projected capital position over 3 years under base case assumptions
- Stress scenario 1 (Adverse): a launch failure scenario — what happens to the institution's capital if a significant proportion of pre-revenue clients fail to reach commercial operations following a launch failure or regulatory setback?
- Stress scenario 2 (Severe): a space economy downturn — what happens if private investment in the space economy contracts by 50% over 12 months, reducing client revenues and increasing defaults?
- Stress scenario 3 (Idiosyncratic): a major AML/CFT failure — what is the capital impact of a regulatory sanction, operational remediation cost, and client loss following a material AML/CFT compliance failure?

- For each scenario: identify the capital shortfall (if any), the management actions available to address it, and the minimum capital floor below which the institution would not be viable

D — Capital Adequacy Conclusion

- Board's assessment of whether current and projected capital is adequate for the institution's risk profile under base case and stress scenarios
- If capital is assessed as inadequate under any scenario: a capital restoration plan, with timeline and specific actions
- A formal capital adequacy statement, signed by the Board Chairperson and the CFO (or equivalent)

3.3 SFSA Review of ICAAP

The SFSA Secretariat will review the ICAAP submitted by each SFSA-Authorised Bank and may:

- Accept the ICAAP — confirming that the institution's capital assessment is adequate
- Request clarification or additional analysis on specific risk categories or scenarios
- Issue a Supervisory Capital Add-On — a requirement to hold additional capital above the Pillar 1 minimum where the SFSA assesses that specific risks are not adequately captured by the institution's Pillar 1 calculation
- Refer the matter to the Council if the ICAAP reveals a material capital adequacy concern

Section 4 — Pillar 3: Capital Disclosure

4.1 Public Disclosure Requirements

Every SFSA-Authorised Bank must publish an annual Capital Adequacy Disclosure on its website, no later than 4 months after its financial year-end. The disclosure must include:

- A statement of the institution's capital position — Tier 1 capital, total capital, and total risk-weighted assets
- The institution's capital adequacy ratio — total capital as a percentage of total risk-weighted assets
- A description of the institution's capital instruments — share capital, retained earnings, and any qualifying subordinated debt
- A brief description of the institution's risk management approach and the principal risks to which it is exposed
- A statement that the institution holds SFSA Authorisation and is subject to the SFSA Capital Adequacy Framework

4.2 Disclosure to the SFSA

In addition to public disclosure, every SFSA-Authorised Bank must report the following to the SFSA Secretariat as part of the Annual Regulatory Report:

- Full capital adequacy calculation — Pillar 1 calculations for credit risk, market risk, and operational risk, with workings
- ICAAP — as described in Section 3
- Capital adequacy ratio and comparison with SFSA minimum requirements
- Any breach of, or approach to, minimum capital requirements during the year — and management actions taken
- Audited financial statements, confirming the accuracy of the capital adequacy calculation

Section 5 — Capital Buffers

5.1 Capital Conservation Buffer

Every SFSA-Authorised Bank must maintain a capital conservation buffer of 2.5% of total risk-weighted assets above the Pillar 1 minimum requirement. This buffer is intended to absorb losses during periods of stress and must not be distributed to shareholders while the buffer is being utilised.

5.2 SFSA Space Economy Buffer

In recognition of the novel and evolving risk profile of the space economy, the SFSA requires all SFSA-Authorised Banks to maintain an additional Space Economy Buffer of 2.5% of total risk-weighted assets. This buffer reflects:

- The absence of historical loss data for space economy financial exposures — unlike conventional banking, there is no multi-decade dataset on default rates, loss severities, and recovery rates for space economy lending
- The binary risk profile of pre-launch space economy assets — an asset that exists only as a satellite awaiting launch is either worth its full projected value or zero
- The regulatory uncertainty inherent in a sector whose legal and jurisdictional framework is still being developed

PLAIN TERMS Space-economy risk is genuinely new, so every SFSA-Authorised Bank holds an extra 2.5% of risk-weighted assets on top of the standard buffer, as a Space Economy Buffer.

NOTE The combined capital conservation buffer and SFSA Space Economy Buffer of 5% of RWA will be reviewed after 3 years of operation, at which point the SFSA will assess whether loss data from SFSA-Authorised Institutions supports a recalibration of the buffer requirements.

5.3 Liquidity Buffer

In addition to capital buffers, every SFSA-Authorised Bank must maintain a liquidity buffer sufficient to cover at least 30 days of net liquidity outflows under a stress scenario. The liquidity buffer must be held in:

- Cash and central bank deposits
- Government bonds of OECD member states with remaining maturity of less than 1 year
- High-quality covered bonds rated AA- or above

Digital assets, equity securities, and in-space assets do not qualify as liquidity buffer assets for SFSA purposes.

Section 6 — Space Economy-Specific Capital Treatments

6.1 Launch Contract Financing

Financing provided to a space economy company for the purpose of funding a launch contract — whether as a loan, trade finance facility, or other credit instrument — is subject to the following specific capital treatment:

- Pre-launch (from signing to launch): risk weight 175% — the exposure is entirely contingent on a successful launch
- Post-launch, pre-revenue (launch successful, satellite operational but not yet revenue-generating): risk weight 150%
- Post-launch, revenue-generating (satellite generating contracted revenues): risk weight 100%
- The institution must document the launch status of each financed satellite or launch vehicle and update the risk weight at each status change

PLAIN TERMS If you finance a launch contract — as a loan, trade finance, or any other credit instrument — here is how much capital that exposure costs you, at each stage of the launch.

6.2 Satellite Constellation Financing

Financing for satellite constellation development — where a client is building a constellation of multiple satellites over multiple launches — presents portfolio risk not captured by single-satellite launch financing. The SFSA requires:

- A constellation-level exposure limit — no SFSA-Authorised Bank may have total exposure to a single satellite constellation programme exceeding 15% of its Tier 1 capital
- Phased drawdown — financing agreements for constellation development must include phased drawdown provisions tied to launch milestones, to avoid concentration of pre-launch risk
- A constellation risk assessment must be conducted at least annually, assessing the programme's technical progress, financing runway, and probability of full deployment

6.3 In-Space Asset Collateral

The space economy will increasingly involve in-space assets — operational satellites, orbital slots, spectrum rights, space station components, and eventually in-space extracted resources — being offered as collateral for financing. The SFSA's approach to in-space asset collateral is:

- In-space assets may be accepted as collateral, but are subject to a mandatory haircut of at least 50% of independently assessed value — reflecting valuation uncertainty, the absence of an established secondary market, and the practical difficulties of enforcing security over an asset in orbit
- An independent valuation by a qualified space asset valuation specialist must be obtained before any in-space asset is accepted as collateral

- Orbital slot rights and spectrum licences may be recognised as collateral only where they are legally transferable under applicable national law and ITU regulations
- In-space resource extraction rights — rights to extract resources from asteroids, the Moon, or other celestial bodies — may not be accepted as collateral until an internationally recognised legal framework for such rights is established

6.4 Private Equity and Venture Investments in Space Companies

SFSA-Authorised Banks that hold equity stakes in space economy companies — whether as investments, warrants received as part of a financing package, or direct venture investments — must:

- Apply a risk weight of 250% to all unlisted space economy equity holdings for Pillar 1 capital purposes
- Include a specific concentration limit — no more than 10% of Tier 1 capital may be held in equity stakes in any single space economy company
- Disclose all equity holdings in space economy companies in the Annual Regulatory Report, with carrying value and basis of valuation
- Obtain Board approval for any new equity investment in a space economy company — these are high-risk, illiquid positions that require senior governance oversight

Section 7 — Capital Adequacy Breaches and Remediation

7.1 Notification Requirements

Every SFSA-Authorised Bank must notify the SFSA Secretariat immediately — and in any event within 2 business days — if:

- Its capital falls below the applicable SFSA minimum capital requirement (Section 2.1)
- Its capital adequacy ratio falls below the Pillar 1 minimum of 8% plus the combined buffer of 5% (total: 13%)
- Its liquidity buffer falls below the 30-day minimum requirement
- It identifies a scenario in its stress testing that would result in a breach of any capital or liquidity requirement

PLAIN TERMS Tell us within 2 business days — sooner if you can — the moment your capital drops below the SFSA minimum, your capital ratio drops below 13% (8% baseline plus 5% buffer), your liquidity buffer drops below 30 days, or a stress test shows a scenario where any of those would happen.

7.2 Remediation Plan

Upon notification of a capital adequacy breach, the institution must submit a Capital Remediation Plan to the SFSA Secretariat within 10 business days. The plan must:

- Identify the cause of the breach — unexpected loss, capital erosion, asset growth outpacing capital, or other
- Set out specific management actions to restore capital to the required level — capital injection, asset reduction, dividend suspension, or other
- Provide a timeline for restoration — the SFSA expects capital breaches to be remediated within 90 days at most
- Be approved by the Board and signed by the Board Chairperson

7.3 SFSA Response to Capital Breaches

The SFSA Secretariat will, upon receipt of a capital breach notification and remediation plan:

- Assess the severity and cause of the breach
- For minor breaches with a credible remediation plan: confirm receipt and monitor progress
- For material breaches: refer to the Council for consideration of supervisory action — which may include additional conditions on the SFSA Authorisation, restrictions on new business, or suspension of SFSA Authorisation pending remediation
- For severe or unremediable breaches: consider revocation of SFSA Authorisation and notification to applicable national regulators

SPACE FINANCIAL SERVICES AUTHORITY

The world's first financial regulatory body dedicated to the space economy

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