

Financial Market, Regulation

Banking Regulation: Important Adjustments, but ***Switzerland Continues to Follow Its Own Path***

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At a glance

- The Council of States committee has concluded its deliberations on stricter capital requirements for systemically important banks.
- It is maintaining the requirement for full capital coverage: However, under the new rules, only 50 percent may be covered by common equity tier 1 capital, with the remaining 50 percent covered by additional tier 1 capital.
- economiesuisse welcomes these adjustments and supports a targeted strengthening of financial stability—however, the full capital requirement for foreign holdings remains a Swiss exception that is not coordinated internationally.

The Council of States Committee on Economic Affairs and Taxation (WAK-S) has concluded its deliberations on the bill regarding capital requirements for foreign holdings of systemically important banks. For economiesuisse, one thing is clear: Lessons must be learned from the Credit Suisse crisis, and the regulatory framework must be strengthened where weaknesses have been identified.

However, the Credit Suisse crisis did not demonstrate that international capital standards are fundamentally inadequate. Rather, it highlighted the importance of consistently applying and enforcing existing rules. New regulations should therefore address specifically identified weaknesses and not automatically lead to more stringent capital requirements.

Robust financial market regulation is an important prerequisite for a stable and efficient financial center. At the same time, it is essential to carefully consider the impact of new regulations on Switzerland's competitiveness as a business location. Reliable and internationally coordinated framework conditions are of central importance, particularly for an internationally integrated economy.

International Standards Instead of Swiss Exceptions

The WAK-S maintains a full deduction for capital requirements on foreign investments, even though this is neither provided for in international standards nor practiced in major competing jurisdictions such as the EU, the United Kingdom, or the United States. Consequently, Switzerland continues to follow a unique regulatory path that could weaken the international competitiveness of the Swiss financial center.

At any rate, the Commission wants foreign holdings not to be required to be fully backed by Common Equity Tier 1 (CET1) capital. According to the WAK-S proposal, 50 percent should be backed by common equity tier 1 (CET1) capital and the remaining 50 percent by additional tier 1 (AT1) capital. This at least softens the Federal Council's original proposal.

From economiesuisse's perspective, regulatory requirements should be coordinated at the international level whenever possible. Unilateral national actions undermine Switzerland's attractiveness as a business location and can, in the long term, make financing more expensive for the Swiss economy. New regulations must therefore not only strengthen stability but also take their economic impact into account.

Make Capital Instruments More Effective

One positive development is that the WAK-S intends to recognize additional core capital in the form of AT1 to underpin foreign investments. The proposed structure of the additional capital instruments is also welcome. It is based on European market standards. It is understandable that repayment is only possible under strict conditions.

The proposed adjustments are intended to ensure that, in the event of a crisis, these instruments can absorb losses at an early stage and help stabilize the bank. It remains crucial that the requirements be designed to be effective, proportionate, and market-oriented.

Strengthening Switzerland as a Financial Center in the Long Term

The deliberations of the WAK-S demonstrate how important it is to ensure a balanced further development of “too big to fail” regulation. For economiesuisse, the priority is a regulatory framework that strengthens financial stability, upholds the accountability of market participants, and at the same time ensures the international competitiveness of Switzerland as a financial center.

Switzerland needs a strong, stable, and internationally competitive financial center. This goal is best achieved through proportionate and internationally coordinated regulations.

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