

Regulation, Financial Market

Equity Capital Rules: The Second Chamber must strongly advocate for Switzerlands competitiveness

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At a glance

- The Council of States is requiring that holdings in foreign UBS subsidiaries be backed by 90 percent common equity tier 1 (CET1) capital going forward. This would entail significant costs—costs that would have to be borne not only by UBS but by Switzerland as a business location as a whole.
- The National Council is now called upon to find a solution that takes the economic implications into account. As a small, open, and internationally well-connected economy, Switzerland depends on an efficient and internationally competitive financial center.

The Council of States decided today that holdings in foreign subsidiaries by systemically important banks must in the future be backed by 90 percent common equity tier 1 capital. In doing so, the upper house has opted for an approach that entails significant economic costs. In the opinion of the business community, the proposal put forward by the majority of the Economic Affairs Committee would have been the only viable option.

Now the Second Chamber must find a solution that is economically viable. As a small, open economy with strong international ties, Switzerland depends on an efficient and internationally competitive financial center. This includes a major bank that supports Swiss companies both at home and abroad and can offer them financing, capital market transactions, payment services, hedging transactions, and other services on terms that are competitive both nationally and internationally.

This is of fundamental importance not only for Swiss companies operating internationally but also for local SMEs. A major bank with a global presence can support its clients across markets and currency areas and provide them with access to international capital markets. Regulatory requirements that significantly alter the costs or operational flexibility of such a bank will therefore also affect the real economy. The Council of States' decision carries a particular risk that financing and other banking services for businesses will become more expensive.

The goal of strengthening the resilience of systemically important banks and limiting the risks to the state and the national economy is largely undisputed. However, there remains disagreement over which combination of common equity tier 1 (CET1) capital, additional loss-absorbing instruments, and regulatory flexibility is best suited to achieve this. The fact that the Federal Council proposes 100 percent CET1, the majority of the commission favors a 50/50 model, and the Council of States now advocates 90 percent CET1 underscores this as yet unresolved conflict of objectives. The WAK-S had explicitly described its proposal as an attempt to reconcile the need for security with competitiveness.

This is particularly relevant in an environment where Swiss companies are already facing rising regulatory, bureaucratic, and location costs. Additional burdens on corporate financing would further erode their international competitiveness. At the same time, new regulations must effectively address the lessons learned from the Credit Suisse crisis: A strong major bank benefits the Swiss economy only if it is both solidly capitalized and resilient even in a crisis.

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