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Autorité fédérale de surveillance des marchés financiers FINMA
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Press release

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Swiss "too big to fail regime" significantly strengthened

The Federal Council has defined new capital adequacy standards for systemically important banks. It has also taken other measures to reinforce the current "too big to fail" regime and hence the resilience of these banks. The leverage ratio for global systemically important banks will be set at 5%. In addition, these banks must meet hold an equal amount of "gone concern" capital. This means that required total loss-absorbing capital will amount to 10% of total exposure. Furthermore, emergency plans for the Swiss business must be executable by 2019. The Swiss Financial Market Supervisory Authority FINMA welcomes the decisions taken by the Federal Council.

It was decided at today's meeting of the Federal Council that the Swiss "too big to fail" (TBTF) regime should be strengthened. In taking this decision, the Federal Council is following through on plans announced in February 2015. At that time the Federal Council confirmed the appropriateness of the basic design of the existing measures applying to systemically important banks, and intending to mitigate the TBTF problem in Switzerland. Nevertheless, it saw the need to make enhancements, particularly with regard to capital requirements and the feasibility of emergency plans. FINMA strongly supports the decisions taken today. FINMA CEO Mark Branson emphasises: "These changes strengthen the resilience of the largest banks, the stability of the Swiss financial system, and therefore the economy as a whole."

5% leverage ratio – a total of 10% loss-absorbing capital

Global systemically important banks must now fulfil requirements for two different types of loss-absorbing capital: capital to absorb current operating losses (going concern capital) and capital to fund an orderly resolution (gone concern capital). (For more information see the fact sheet.)

Under the new regulations, global systemically important banks will be subject to a leverage ratio of 5% (going concern). The 5% relates to the bank's total exposure as a measure of its on- and off-balance sheet positions. At least 3.5% of this must be held in the form of Common Equity Tier 1 capital (CET1) and the remainder in Tier 1 instruments, which would be converted or written down if the CET1 ratio falls below 7% ("high trigger"). In addition, these banks must hold 5% of loss-absorbing debt capi-

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tal, again measured in terms of total exposure. This bail-in capital (gone concern) is earmarked for use in the event of resolution. The result in terms of risk-weighted requirements is a total of 28.6%, consisting of 14.3% for each category. At least 10% must be held in the form of CET1 capital.

Changes will ensure sound capitalisation

The newly recalibrated system therefore defines loss-absorbing capital requirements which correspond to a ratio of 28.6% of risk-weighted assets or 10% of total exposure. The leverage ratio continues to act as a safety net in the Swiss system. The enhanced capital requirements will be phased in over the period until the end of 2019 and will ensure that the global systemically important banks will have access to significantly more loss-absorbing capital in future. Mark Branson states: "Going concern capital makes these institutions substantially safer and more resilient, while gone concern capital will be used in the event of a crisis. This places Switzerland among those countries with the most stringent going concern requirements for global systemically important banks and makes it the first country to define binding gone concern requirements. Here Switzerland is taking the lead."

The two largest banks have continually built up their capital resources since the introduction of TBTF legislation in 2012. At present, the leverage ratios[1] of UBS and Credit Suisse stand at 3.6% and 3.7% respectively. Both banks have also already issued several billion francs of bail-in capital at holding company level.

Emergency plans must be ready for implementation by 2019

Another measure announced by the Federal Council requires that the Swiss emergency plans drawn up by the global systemically important banks must be ready for implementation by the end of 2019. Both of the big banks have already announced important steps in the right direction in the form of changes to their organisational structure, and progress has been made in implementing these plans. However, there remain many operational and financial interdependencies within these groups which would hamper the continuance of systemically important functions. This time limit now ensures that the continuance of systemically important functions in a crisis will be guaranteed by 2019 at the latest.

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[1] Tier 1 Leverage Ratio (look through)