Swiss Banking

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# Extreme Regulatory Path Threatens Competitiveness of Switzerland's Banking Centre and Raises Costs for the Economy

The Swiss Bankers Association (SBA) has strongly criticised the extreme capital requirements for foreign shareholdings decided by the Council of States. A requirement to back 90 per cent of such holdings with hard core capital would entail disproportionately high costs and go far beyond international standards. The Council of States has also not followed the proposal put forward by its Committee on Economic Affairs and Taxation (EATC-S) to strengthen the internationally established AT1 instruments. As a result, these loss-absorbing instruments would not be taken into account when calculating capital requirements for foreign shareholdings. The consequences for the Swiss financial centre and the economy would be significant.

The requirement for 90 per cent to be backed by hard core capital, as decided by the Council of States, effectively doubles the requirement and thus goes well beyond international standards. This extreme and very costly regulatory approach is not practised in competing financial centres in Europe, the United Kingdom or the USA. It would tie up a large amount of additional own funds, which would not be available for financing businesses, investments and other productive purposes. This would considerably weaken the financial centre's international competitiveness, without any proven additional benefit to financial stability. The consequences of such a unilateral approach would affect not only the financial centre, but also the wider economy and customers. The SBA deeply regrets that the predominantly critical comments from the business community and the cantons were not taken into account in the Council of States' decision.

It is also disappointing that the Council of States did not endorse the proposal by the WAK-S on the further development and strengthening of AT1 instruments. This represents a missed opportunity to specifically strengthen an internationally established instrument capable of absorbing losses at an early stage of a crisis. This would have strengthened a bank's ability to weather a crisis under its own steam, long before state support becomes necessary. Under today's decision, AT1 instruments would not be taken into account when calculating the capital requirements for foreign shareholdings and would thus be massively devalued in Switzerland. This stands in clear contradiction to internationally established standards.

For the SBVg, it is also crucial to determine what lessons are to be learnt from the Credit Suisse crisis. The problem was not that capital requirements were too low, but rather the far-reaching exemptions from them that were granted to Credit Suisse for years. The logical lesson to be learnt from this would be to rule out such exemptions in future and to implement the existing rules consistently. Instead, a drastic tightening of capital requirements is being proposed.

A fundamental correction is therefore required for further political deliberations. This should build on the important groundwork laid by the EATC-S. What is needed is an approach that demonstrably contributes to financial stability, is compatible with international standards and safeguards the competitiveness of the Swiss financial center and the economy as a whole.

**Roman Studer, CEO of the Swiss Bankers Association:**

"The Council of States' decision undermines the competitiveness of the Swiss banking centre. Instead of learning the right lessons from the CS crisis, there are calls for a massive tightening of regulations without any proven gain in stability. Switzerland is going its own way, a path no other financial centre is taking. There is a risk that services will be cut and that we will lose talent as well as our leading international position."

### About the Swiss Bankers Association (SBA)

The SBA is the umbrella organisation of the Swiss banks. It represents the sector nationally and internationally vis-à-vis the private sector, policymakers, the authorities and the general public. The SBA advocates for open markets, scope for entrepreneurial freedom and a level playing field. As a centre of competence, it propagates banking expertise and actively engages in future topics. The SBA was founded in Basel in 1912, the SBVg now counts approximately 260 organizations and about 9,000 individuals among its members.

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## Press and media inquiries

**Our team is available to respond to enquiries from members of the media.**

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