UBS Position on the Proposed Amendments to the Capital Adequacy Ordinance

UBS is in favor of strengthening the Swiss banking system through effective and internationally aligned reforms. However, the proposed amendments to the Capital Adequacy Ordinance (CAO) combine the strictest regulations from different jurisdictions. These amendments would constitute a massive overinsurance of risk, represent a disproportionate burden for banks and create unnecessary costs for Swiss households and companies. They could instead be replaced by effective and internationally aligned initiatives that not only achieve stability, but also preserve Switzerland's role as a leading financial center.

Background

On June 6, 2025, the Federal Council submitted amendments to the Capital Adequacy Ordinance (CAO) for consultation as the first phase of the comprehensive reforms initiated following the Credit Suisse crisis. These include the full deduction of certain assets, including capitalized software and deferred tax assets, from Common Equity Tier 1 (CET1) capital; tightening of valuation rules to reflect the fair value of financial instruments (prudent valuation adjustments, PVA); and proposals to strengthen loss-absorbing capital instruments (AT1 instruments) (see "Further information" below). In addition to the amendments to the CAO, the Federal Council is proposing the full deduction of foreign participations from CET1 capital at the legislative level.

Why the topic is important

The aim of the reforms is to strengthen the stability of the banking system and bolster public confidence by drawing lessons from the Credit Suisse crisis. However, the capital proposals ignore the fact that Credit Suisse's insufficient capitalization, as was also noted by the Parliamentary Investigation Committee, was primarily due to regulatory concessions. The proposals do not align with the principle of proportionate, targeted and internationally aligned regulation. They could have significant unintended consequences for the Swiss economy and the financial center:

Loss of competitiveness due to lack of international coordination – The measures go well beyond the Basel III regulations and standard international implementation practices. They would combine the most restrictive rules in place in different jurisdictions, which would be unprecedented at the international level and would significantly weaken the competitive position of both UBS and Switzerland (see Figure 1).

Not targeted in nature – The CAO proposals mainly affect Group capital, instead of strengthening the capital of the parent company as intended. They would reduce UBS Group AG's reported CET1 capital by around USD 11 billion and lower the minimum requirement from 19% to 17%. These deductions are "optical" – the assets remain on the balance sheet but would no longer be counted as regulatory capital, which would make UBS appear less well capitalized compared to its peers.

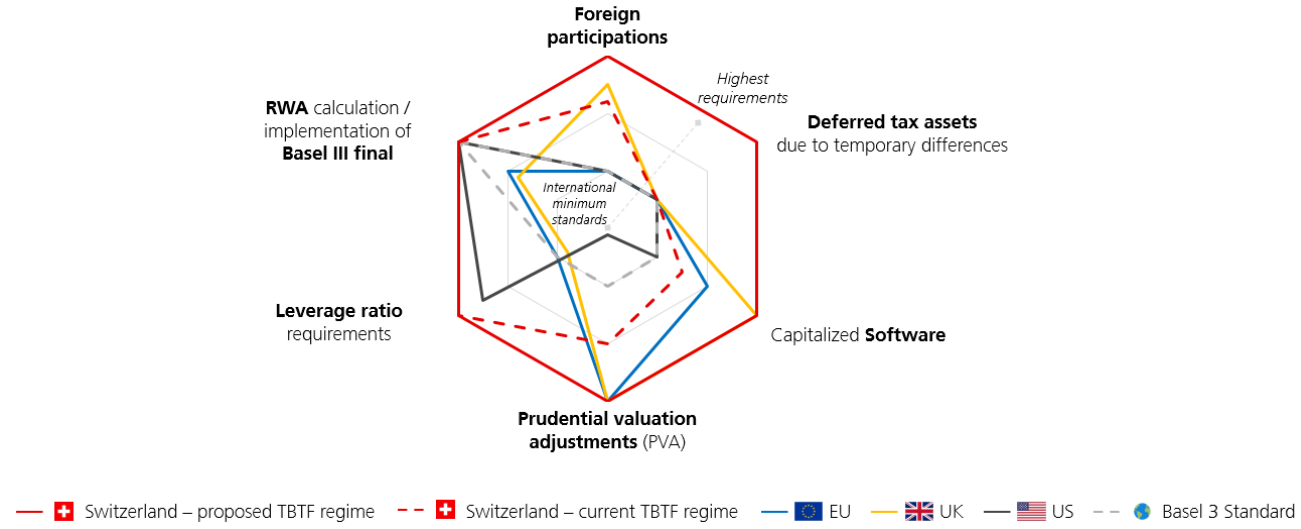
Impact on innovation and investment – The full deduction of software could curtail investment in digital infrastructure, something that is critical to banks' operational resilience and overall competitiveness. This would weaken the banking center in the long term. In 2020, the EU reversed its decision to fully deduct capitalized software from CET1 capital due to the negative impact this would have on banks' competitiveness and business models.

The CAO measures are disproportionate and should not be viewed in isolation: UBS would have to hold over 50% more capital than its global competitors (see Figure 2) due to the combined effect of the proposed measures on the ordinance and legislative level. This would have repercussions for the entire Swiss economy – with knock-on costs for households and companies.

UBS's position

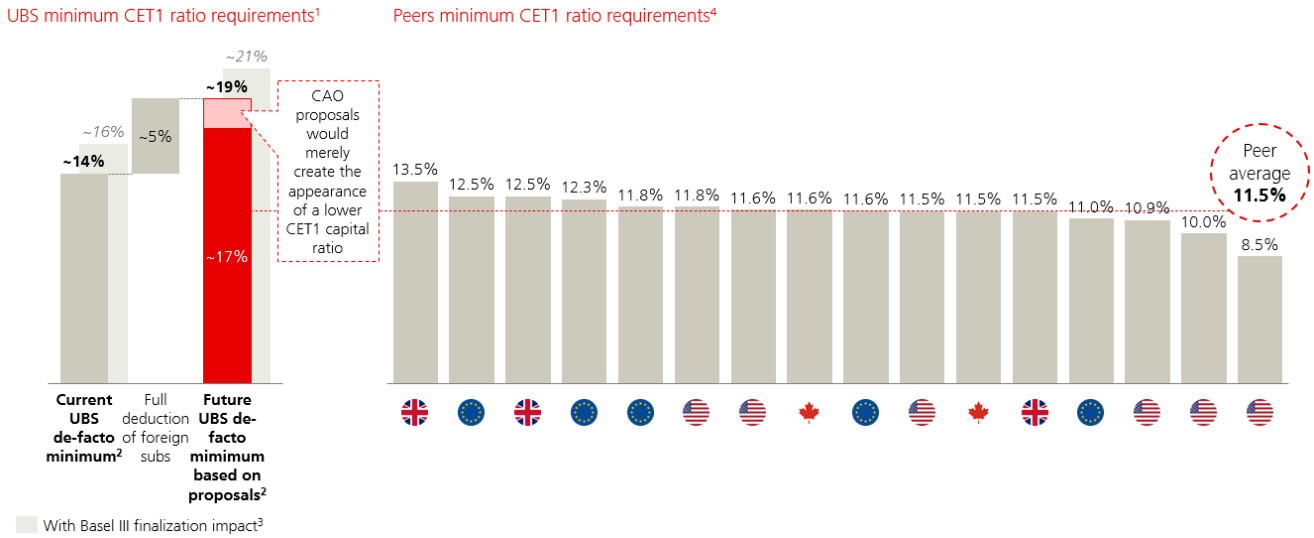
UBS is of the opinion that the amendments to the CAO should be geared to achieving the objectives of financial stability while at the same time maintaining the competitiveness of UBS and Switzerland. Resilience could be improved using alternative, less extreme measures; however, these were rejected without satisfactory justification. The significant risk of overregulation through capital measures – as emphasized in the expert study prepared by Alvarez & Marsal on behalf of the Federal Council – was not taken into account by the Federal Council. The measures in the overall banking stability package are interconnected and influence one another; far-reaching measures have also been proposed in other areas. As a result, the package needs to be defined in its entirety so a cost-benefit analysis can be performed that takes due consideration of all relevant aspects. UBS is committed to an objective debate on regulation. A comprehensive basis of information is needed for decisions like these that have wide-ranging consequences for Switzerland.

Figure 1 – Comparison of the most important Capital Adequacy Ordinance requirements across jurisdictions



Note: Based on internal analysis and assessment of Swiss Federal Council regulatory proposals and other regulatory regimes. The USA has not yet implemented the final Basel 3 standards but is already severely limited in the calculation of the RWA (see Collins Amendment).

Figure 2 – Minimum CET1 ratio requirements in an international comparison



Note: 1 Pro-forma figures based on 1Q25 and assume proposed measures are fully applied; assumes a static countercyclical buffer and Pillar 2 add-ons; progressive add-ons are based on expected levels of LRD (Leverage Ratio Denominator) and market shares (phased in until 2030); LRD categories are as proposed in the Federal Council's letter dated June 6, 2025; **2** Given expected UBS AG capital ratio of 12.5-13.0% and UBS Group AG equity double leverage of ~100%; **3** Due to the earlier and full implementation of Basel III Final in Switzerland, UBS holds approximately ~2ppts more CET1 than its international peers; **4** Based on available financial reports as of 9 January 2026, for publicly listed North American and European G-SIBs (Global Systemically Important Banks), excluding custodial banks; U.S. G-SIBs are assessed on a standardized basis; EU peers reflect Pillar 2 add-ons of 1.3%, based on the average value from the aggregated results of the EU Supervisory Review and Evaluation Process (SREP) 2024, published by the European Central Bank, and is also used as a proxy for UK competitors.

Additional information

- **Capital problem at Credit Suisse due to regulatory concessions:** The report by the Parliamentary Investigation Committee into the Credit Suisse crisis confirmed that its insufficient capital was due not to low regulatory requirements, but to inadequate enforcement and regulatory concessions – in particular the so-called regulatory filter. According to the report, if this filter had not been applied Credit Suisse's capital ratio would have fallen from 10% at the end of 2019 to 5% in the third quarter of 2022, well below the regulatory minimum. Consequently, the filter allowed Credit Suisse AG to maintain the appearance of adequate capitalization right until the end. The crisis was additionally exacerbated by serious shortcomings in the areas of strategy, corporate culture, risk management and governance. It is therefore unjustified to place an excessive focus on increasing capital requirements.
- **Software as a strategic asset:** With a full deduction from CET1 capital, capitalized software can no longer be counted as regulatory capital. This undermines the incentives for banks to invest in digital infrastructure. This comes at a time when the technology is gaining rapidly in importance – also for banks. The strategic value of internally developed software is increasing accordingly, which makes a decisive contribution to operational resilience and innovation. The Federal Council wants to ensure that software writedowns do not affect a bank's regulatory capital in times of crisis. However, software retains considerable value, even in extreme crisis situations. During the integration, UBS wrote off Credit Suisse's software only in those cases where equivalent systems were already in place due to major business overlaps. If Credit Suisse had undergone independent restructuring, the software would only have had to be written down on a targeted basis in those business areas affected by the restructuring.
- **Deviation from international standard for DTAs:** Deferred tax assets from temporary differences (TD DTAs) constitute an expected future tax benefit because a bank has currently paid more tax (or recognized less expense) than will have to be paid in the future. The rules that currently apply in Switzerland, the EU, UK and USA correspond to the Basel III standards, which recognize TD DTAs up to a threshold of 10% of CET1 capital. The Federal Council has proposed a full deduction (threshold of 0%). Here again, the Federal Council wants to ensure that TD DTA writedowns do not affect a bank's regulatory capital in times of crisis. At Credit Suisse, however, the TD DTA writedowns in 2022 resulted primarily from decisions made by the Board of Directors and management to scale back parts of the investment banking business; as part of this, the sale of specific DTA business led to an improved capital ratio. UBS's DTAs, on the other hand, belong mainly to business areas that are part of its long-term core business and retain their value even in times of crisis or in the event of a sale. Therefore, a clear deviation from the Basel standards and international practice is not justified.
- **Prudent valuation adjustments (PVAs):** PVAs are additional capital buffers for assets whose value is uncertain in times of crisis. To ensure that valuations remain robust and resilient even in tense market conditions, the Federal Council has proposed raising the valuation discount to the European level. This change would improve international harmonization but would increase UBS's capital requirements by around USD 2 billion.
- **Role of AT1 capital:** AT1 instruments have a loss-absorbing effect in a crisis and provide additional capital by being converted into equity or written down. They are therefore a central component of the crisis toolkit, both in international standards and in the Swiss capital regime. The Credit Suisse case demonstrated how effective they are. However, the Federal Council's proposals go in two different directions: on the one hand, they aim to strengthen AT1 instruments by introducing stricter rules for repayment and by providing for the automatic suspension of interest payments for AT1 capital instruments; on the other hand, the proposals to fully deduct certain assets focus only on CET1 capital, with a 50% increase in CET1 capital requirements, ignoring the role of AT1 instruments in a crisis. In addition, the Federal Council has proposed that UBS can reduce its AT1 instruments by USD 8 billion – a significant amount – to cushion the cost implications of the CET1 increase. This would significantly weaken AT1 capital as a crucial instrument of crisis management. Alternatively, aligning these important capital instruments to standards used in the EU and UK would significantly enhance their effectiveness.