The Implications of the Capital Regulation Proposals on Switzerland

The overall implications of the reform proposals on banking stability by the Federal Council cannot be assessed, as many of the measures have yet to be finalized. However, the current capital proposals would entail significant additional annual costs for UBS. The Federal Council's assumption that these costs would mainly be incurred abroad is inaccurate. The report commissioned by the Federal Council from Alvarez & Marsal points to considerable risks for the Swiss economy, such as reduced lending and job losses. More restrictive lending would place additional strain on the already declining credit market in the industrial sector and would hit small and medium-sized enterprises (SMEs) particularly hard.

Background

The proposed capital rules – in particular the complete deduction of foreign subsidiaries from the parent bank's common equity tier 1 (CET1) capital – would require UBS to increase its CET1 capital by around USD 24 billion. The Federal Council argues that this additional requirement serves to cover foreign business, so the costs would primarily be incurred there; Swiss business would remain unaffected and credit costs in Switzerland should not increase.

Why the topic is important

The Federal Council acknowledges that higher capital requirements overall could make financing more expensive. UBS would need to take measures to maintain its profitability despite higher capital requirements. For example, the range of services and credit offered would have to be reduced, or prices for businesses and households would have to be raised. Excessive capital requirements would therefore pose **significant risks to the Swiss economy**:

- **Swiss business and Swiss clients of UBS affected** – The full CET1 deduction of foreign subsidiaries would apply to the Swiss-based parent bank UBS AG. The additional costs would also affect its subsidiaries, including UBS Switzerland AG, which as a universal bank operates the Swiss business. Products and services that Swiss customers benefit from thanks to the bank's global presence, expertise, and economies of scale would become more expensive or disappear altogether. International locations such as Frankfurt, New York, Hong Kong, and Singapore support Swiss clients in accessing global capital markets and payment systems, in hedging payment and currency risks, and assist 8,000 Swiss corporate clients with their international business activities, such as goods exports. Thanks to its globally integrated business model and cost-reducing economies of scale, UBS is able to offer these services at attractive conditions. Jobs in Switzerland also depend on global services for Swiss clients.
- **Experts Alvarez & Marsal confirm that reduced lending and job losses in Switzerland are possible consequences** – In particular, economic activity and consumer sentiment in Zurich, Geneva, and Basel, where most UBS employees are based, would be affected. According to a study by Oliver Wyman ("The Swiss banking sector – Role and relevance for Switzerland", 10 April 2025), every job lost at a bank would jeopardize another outside the sector.
- **Signs of credit scarcity already visible** – According to the Swiss National Bank's (SNB) report "Bank funding costs" from November 2025, refinancing costs for Swiss banks have risen significantly since 2024, leading to more expensive credit for households and businesses. The Swiss credit market outside the mortgage segment has been stagnating for almost two years, partly due to the challenging economic situation (see Figure 1). Credit volumes in Swiss industry, where four out of five companies are SMEs, recently fell by 7% compared with the previous year. Surveys conducted by the Swiss Economic Institute at ETH Zurich also show financing bottlenecks in this sector (see Figure 2). The credit scarcity in certain segments is not due to a lack of competition. In June 2024, FINMA concluded that the takeover of Credit Suisse by UBS would not eliminate effective competition in any market segment. In December 2025, a Federal Council report confirmed that no widespread negative effects on prices, margins, or negotiating positions had been identified following the merger of UBS and CS.

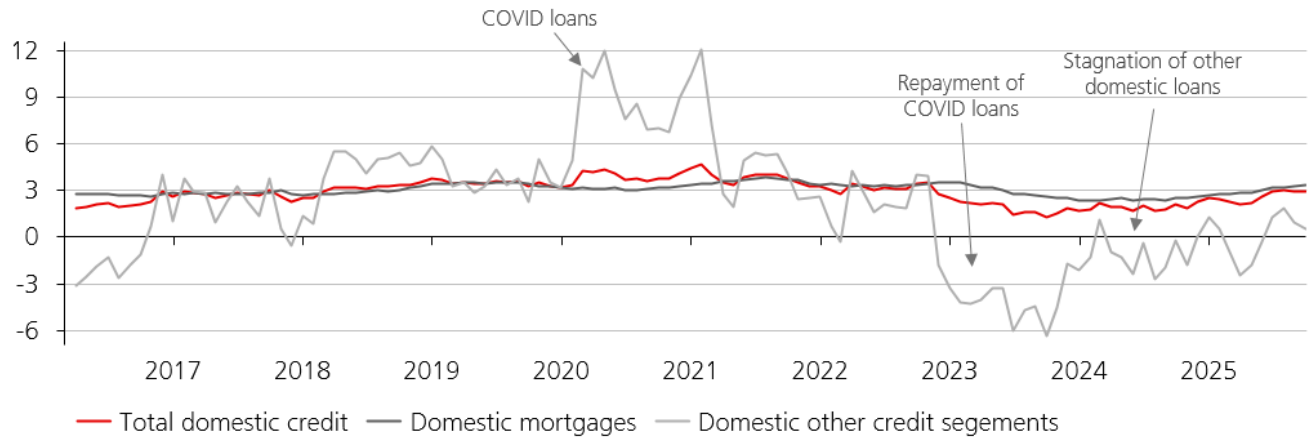
There is a risk that a reduction in UBS's lending could only be partially offset by other banks. Many Swiss banks do not have sufficient additional sources of financing. Since 2023, deposits – the most important source of financing – have grown significantly more slowly than loans, limiting the ability to expand lending, as the SNB confirms in its report (see Figure 3). The SNB also notes that even today, more demanding regulation leads to higher liquidity holdings, which in turn contributes to higher refinancing costs in the domestic market. As a result, many Swiss banks are reaching the limits of their lending capacity. If Swiss companies and households switch to foreign banks, dependence on external and sometimes volatile sources of financing will increase. After the global financial crisis, for example, the share of foreign banks in Swiss lending halved between 2008 and 2015. The COVID crisis also showed that, in times of uncertainty, foreign institutions focus on their home markets, partly due to pressure from politicians and regulators abroad.

The favorable financing conditions for the Swiss economy to date would be at risk if the international wealth-management hub were weakened. Swiss banks today have among the lowest net interest margins internationally. They therefore offer loans on very competitive terms. According to the Oliver Wyman study, the low financing costs are also due to Switzerland's strength in the wealth management business, which provides foreign capital for local industries. However, this requires competitive framework conditions for wealth managers. Excessive regulation would jeopardize these conditions.

The position of UBS

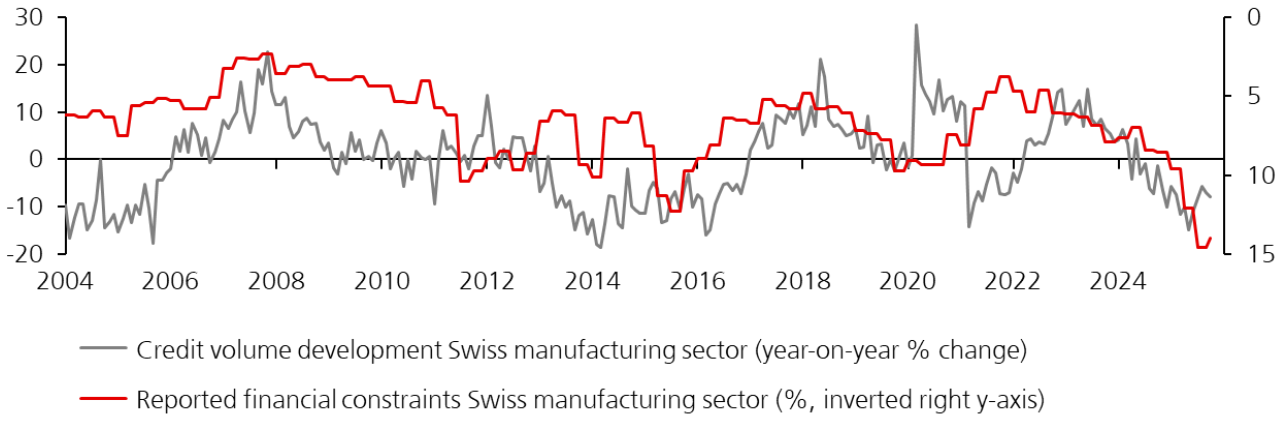
The proposed capital measures are too extreme and would pose significant risks to the Swiss economy. The other parts of the regulatory package (e.g., Pillar 2 surcharges, liquidity, resolution) will impose further substantial costs. What is needed are targeted, balanced and internationally aligned measures that further strengthen financial stability without placing a disproportionate burden on Switzerland's financial center and economy.

Figure 1 – Credit growth in Switzerland (growth rate in %, year-on-year comparison)



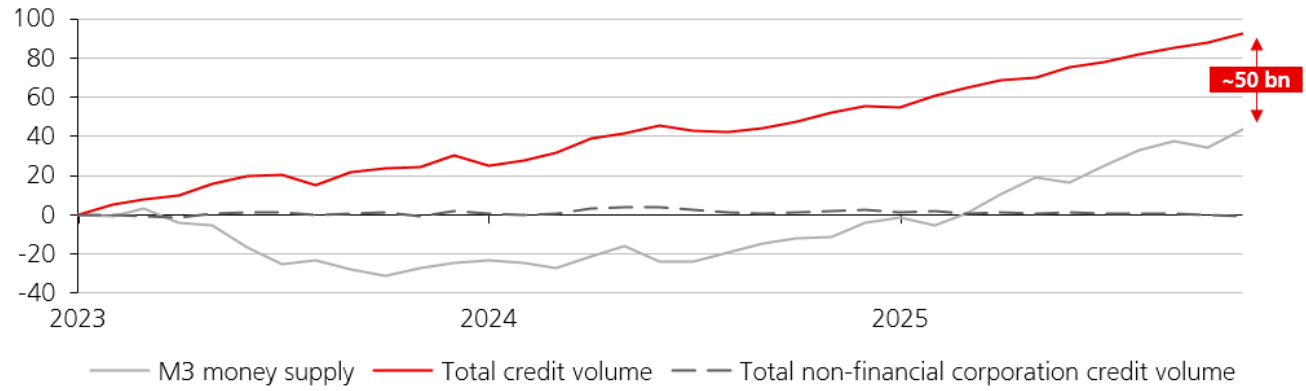
Source: SNB

Figure 2 – Change in credit volume and financial constraints in Swiss industry



Source: SNB, KOF Swiss Economic Institute at ETH Zurich

Figure 3 – Development of Swiss sight, savings, and time deposits (M3 money supply) and credit volume (in CHF billion, cumulative change since January 2023)



Source: SNB