# Impact of Rising Capital Requirements on Capital Costs

The capital requirements proposed by the Federal Council would result in additional capital costs of around USD 1.7 billion per year for UBS. This would significantly weaken its profitability and resilience. In the public debate, it is often argued that higher capital requirements increase the safety for investors and thereby reduce the cost of equity and debt capital. In practice, however, this safety effect is not apparent: despite a doubling of capital over the last ten years, UBS's percentage cost of equity has not fallen. A balanced regulatory solution is needed to preserve UBS's competitiveness.

## Background

On June 6, 2025, the Federal Council proposed changes to the capital regulations. Certain assets – such as foreign participations, software, and deferred tax assets – are to be deducted in full from Common Equity Tier 1 (CET1) capital. This would require UBS to hold around USD 24 billion more in CET1 capital. In the public debate, reference is often made to the safety effect described above to argue, incorrectly, that this would not result in any additional costs for UBS.

## Why the topic is important

**The increase in capital requirements would result in significant additional recurring annual costs.** Independent financial analysts estimate capital costs because they are central to the valuation of bank shares. For UBS, they have estimated it at around 10% for years. With an additional USD 24 billion in CET1 capital, UBS would incur additional recurring annual capital costs of around USD 2.4 billion. Taking into account the substitution of debt financing, the total additional costs would still amount to around USD 1.7 billion, or more than one fifth of 2025 profits.

**UBS's share price performance reflects the potentially high additional costs that may arise.** Since the Federal Council published its report on banking stability in April 2024, UBS's share price has underperformed its European and US competitors by around 27 percent (as of end December 2025), despite very good business performance and the rapid and successful integration of Credit Suisse to date. According to analysts, this is due to the expected capital requirements and correspondingly lower return expectations. The often-cited risk reduction from higher capital is therefore too small for an already well-capitalized bank like UBS to offset the lower return prospects for investors. In October 2025, rating agency Standard & Poor's (S&P) also expressed concerns regarding capital costs and their implications for competitiveness: "On a proforma basis, and absent mitigation, the proposed amendments could lead the UBS Group to pile up additional CET1 capital of up to $24 billion (according to the bank's estimate). This might increase UBS's cost of capital and potentially place it at a significant competitive disadvantage both globally and domestically."

**The strong increase in capital costs would weaken UBS's profitability and resilience.** Every franc of earnings would become considerably more expensive compared to competitors, negatively impacting profitability. Lower profitability also reduces the bank's ability to raise capital in a crisis. Banks compete for capital globally and the proposed capital requirements – more than 50% above international peers – would make UBS far less attractive to investors compared to other banks. Raising capital as an early line of defense in a crisis would be more challenging, weakening the bank's resilience.

## UBS's position

Strong capitalization is an important prerequisite for a successful, stable, and attractive bank. UBS has therefore always met the applicable regulatory capital requirements without concessions and has a CET1 ratio of around 14%, which is more than 2 percentage points above the regulatory requirements for 2030. However, if the requirements for UBS rise excessively compared to global competitors, they will become counterproductive, weakening its profitability and attractiveness to investors, and thus also the bank's resilience. It is therefore important to strike a balance in regulation between raising the requirements and preserving UBS's competitiveness and thus its resilience. In UBS's view, the current proposals do not meet this requirement.

## Discussion of Modigliani-Miller: theory and practice

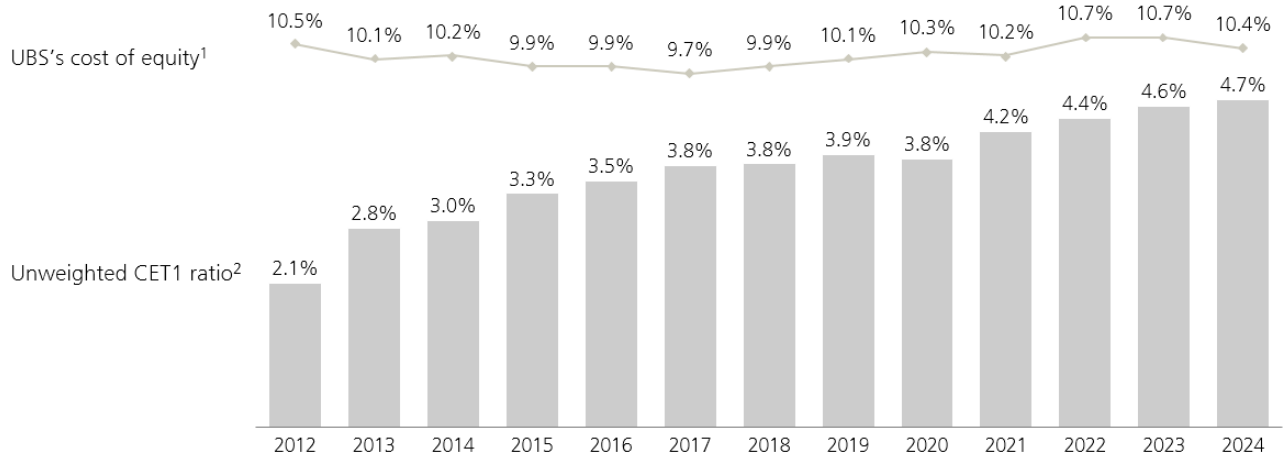
In the public debate, the Modigliani-Miller theorem (MM) is often cited to argue that an increase in capital requirements has no effect on the total cost of capital. According to the theorem, the value of a company is independent of the split between debt and equity. More equity capital would lead to lower percentage costs of equity and debt because the risk for investors would be reduced. At the same time, however, the proportion of debt capital would decrease. Since equity capital is more expensive than debt capital, the two effects, according to theory, cancel each other out, leaving the total cost of capital unchanged.

**The MM theorem is based on assumptions that do not apply in reality – for example, that there are no corporate taxes, markets are perfectly efficient, and a firm's financing structure has no impact on its business.** In academia, there is debate over the extent to which the theorem applies for banks in practice given such "laboratory conditions". Large differences in capital cost estimates in various studies show that the results depend heavily on underlying assumptions. In forming its assessment that the follow-on costs of higher capital requirements would be low, the Federal Council relied on an expert report by Professor emeritus Heinz Zimmermann, published alongside its banking-stability proposals in June 2025. According to the report, an additional USD 10 billion in equity would result in estimated extra costs of USD 320 million. A few months later, Professor Zimmermann released another estimate that was lower by another factor of ten – partly because it assumed an even stronger cost-reducing safety effect. UBS considers it highly problematic that such studies are used by authorities as a key basis for assessing cost implications without acknowledging the strong dependence on assumptions and the resulting significant distortions.

**In observable financial market practice, UBS's cost of equity and debt does not decrease with higher capital levels.** UBS's equity and debt financing costs are determined by investors. The percentage cost of equity of UBS has remained roughly constant at around 10% over the last ten years, even though capitalization, measured by the unweighted CET1 ratio, has more than doubled (see Figure 1). On the debt side, around 90% of UBS's liabilities are largely unaffected by changes in creditworthiness. These consist mainly of deposits (approximately 50%), whose interest rates are largely guided by the Swiss National Bank's policy rate. The remaining 10% of debt already carries very low funding costs, and UBS's credit ratings rank among the highest globally – making further reductions in spreads unlikely even for these instruments, according to Alvarez & Marsal, the experts commissioned by the Federal Council.

**Without the MM effect**, **the cost of capital also rises significantly more in Professor Zimmermann's studies** – similar to UBS's calculations: up to USD 800 million per USD 10 billion of additional CET1 capital.

### Figure 1: Development of UBS's cost of equity[1] and unweighted CET1 ratio[2]




**1** The sell-side consensus estimate from January is used prior to the publication of results for the respective year — for example, the FY24 estimate is based on the January 2025 consensus; **2** The old SRB calculation methodology was used for the years 2012 and 2013, while the new SRB calculation methodology has been applied since 2014