UBS Group AG

Switzerland proposes forcing UBS to add $26bn in capital

‘Too big to fail’ reforms come after bank’s rescue of main rival Credit Suisse

UBS is required at present to match 60% of the capital at its international subsidiaries with capital at the parent bank, but could now be forced to fully capitalise these subsidiaries © Fabrice Coffrini/AFP via Getty Images

Simon Foy in London and **Mercedes Ruehl** in Zurich

Published JUN 6 2025 | Updated JUN 6 2025, 20:08

The Swiss government has proposed increasing UBS’s capital requirements by up to $26bn in an attempt to reduce the risk of another Credit Suisse-style collapse, a move UBS called “extreme” and disproportionate.

Switzerland’s Federal Department of Finance (FDF) on Friday said it wanted to force UBS to fully capitalise its foreign subsidiaries as part of a wide-ranging package of reforms to the country’s financial sector, despite a public lobbying campaign by the bank‘s management to dilute the changes.

“The Credit Suisse crisis made it clear that the Swiss parent bank’s capital base was insufficient,” the FDF said.

“The implementation of the package of measures is intended to substantially reduce the likelihood that another systemically important bank in Switzerland will get into a severe crisis, and that emergency measures by the state will be required.”

At present, UBS — which took over its rival Credit Suisse in a state-sponsored rescue in 2023 — is required to match 60 per cent of the capital at its international subsidiaries with capital at the parent bank.

The FDF said that to meet the new 100 per cent requirements, UBS would need to increase its common equity tier one capital by about $26bn.

The bank would however be allowed to reduce its AT1 bond holdings by $8bn, leaving it with a net increase in “going concern” capital of $18bn.

The FDF said this was an estimate based on 2024 data and assumed no change in UBS’s balance sheet size, risk-weighted assets or its potential use of mitigation measures. According to UBS’s calculations, the proposed reforms would increase its capital requirements by $24bn.

In a statement on Friday, UBS said it “strongly disagrees with the extreme increase in capital requirements that has been proposed”. It added: “These changes would result in capital requirements that are neither proportionate nor internationally aligned.”

The “too big to fail” proposals, which are still subject to parliamentary approval, come after Credit Suisse was granted capital relief in 2017 by Switzerland’s financial regulator, which in effect allowed the bank to inflate the value of its foreign subsidiaries. A parliamentary report last year called the move “incomprehensible”.

The new capital proposals will be put out for consultation in the autumn, before being submitted to parliament. The FDF said the reforms would become law at the start of 2028 “at the earliest”, while UBS would be given a transition period of “at least six to eight years” to implement the changes once the legislation comes into force.

The Swiss proposals in brief

- 100 per cent deduction from CET1 capital for foreign subsidiaries
- Requires $26bn increase in CET1
- UBS can reduce AT1 bond holdings by $8bn
- Six to eight years to implement from about 2028
- AT1 bonds — which can convert to equity when a bank is in trouble — were controversially wiped out ahead of shareholders in the Credit Suisse rescue
- New senior managers regime and bonus clawbacks among other proposals

UBS has been locked in a public feud with the Swiss government and its regulators since the reforms were first floated in April last year, and will now have a further opportunity to lobby lawmakers to water down the changes.

“The real lobbying starts now, and we are preparing for negotiations to last for years,” said one lawmaker from the upper house. “Parliament has been known to be persuaded by it in the past.”

The uncertainty surrounding the planned changes has weighed on the bank’s share price, while its management has argued that additional capital requirements would damage its ability to compete internationally.

“Growth abroad is still possible [for UBS],” the FDF said. “But, in future, increases in the value of foreign subsidiaries or the purchase of further foreign subsidiaries will have to be fully covered by capital and can no longer partly be financed with debt at the cost of the parent bank.”

Shares in UBS closed 3.8 per cent higher, having jumped as much as 6 per cent in the wake of the proposals on Friday.

Alongside the capital reforms, the FDF said it would propose “a targeted strengthening of the quality of banks’ . . . capital base”. This includes the treatment of assets that are not sufficiently recoverable in a crisis, such as in-house software costs and deferred tax assets.

It said the “regulatory treatment of [these] assets . . . should be tightened”, meaning UBS will be required to add more capital as a result of these changes too. This part of the package will be implemented via government ordinance, or executive order, and is likely to come into force by early 2027.

Another package of amendments, which will go to parliament next year, includes measures to increase the powers of the regulator and hold top bankers to account.

The package would introduce a senior managers regime for all banks to clarify responsibilities at the highest levels — board and executive board — to pre-empt misconduct by linking responsibilities with potential sanctions.

It also proposes to hand the regulator the power to fine banks, as well as more tools to intervene early in cases of emerging risks, including by imposing restrictions on dividends and capital requirements. There is also the introduction of clawback for bonus payments at systemically important banks in cases of misconduct.

Switzerland’s political parties are split on how to build up UBS’s defences.

The dominant Swiss People’s party, for example, has expressed worries about the impact of regulatory changes, with some lawmakers instead proposing limiting the size of the lender’s investment bank. The Liberals have raised concerns about future competitiveness, while leftwing parties are supportive of much stronger capital and liquidity requirements.

The Swiss system of democracy means the package could yet be put to a national vote. A bill passed by parliament can be challenged by a referendum if 50,000 signatures are collected in the country of almost 9mn people. This would delay the law until 2029 — or kill it off entirely.

In a memo to UBS staff seen by the Financial Times, chair Colm Kelleher and chief executive Sergio Ermotti said: “We won’t sugarcoat it — we are disappointed by today’s announcement.”

“We will stand our ground”, they added. “This marks the beginning of a long process during which many will be looking even more closely at our firm.”

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