

Capital: the implementation of Basel III

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The capital requirements for Swiss banks are set out in the Capital Adequacy Ordinance, which implements the standards of the Basel Committee on Banking Supervision. The ordinance requires banks to hold capital in proportion to their risk-weighted assets, calculated according to the standardised approaches of the Basel framework or, with the approval of FINMA, according to their own internal models. It distinguishes between common equity tier 1 capital, additional tier 1 capital and tier 2 capital and requires banks to hold buffers above the minimum requirements.¹

Switzerland implemented the final Basel III standards, which the Basel Committee adopted in 2017 to complete the post-crisis reforms, on 1 January 2025. The final standards revised the standardised approaches for credit risk, operational risk and market risk, limited the use of internal models and introduced an output floor, which limits the benefit that banks can obtain from their internal models compared with the standardised approaches.² Switzerland was among the first jurisdictions to implement the final standards, while the European Union, the United Kingdom and the United States delayed parts of their implementation, which raised questions of competitive fairness.

The capital requirements depend on the category of the bank. FINMA classifies banks into five categories according to their size, complexity and systemic importance. The smallest banks, which meet certain liquidity and capital criteria, can benefit from a small banks regime that exempts them from some of the complex requirements in exchange for a high, simple leverage ratio. Several small private banks and regional banks in Basel and elsewhere have opted for this regime.³

1 Notes

1. Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Firms of 1 June 2012 (Capital Adequacy Ordinance, CAO, SR 952.03), implementing the Basel III framework. To be verified. ↩
2. On the implementation of the final Basel III standards in Switzerland as of 1 January 2025 (revised CAO and FINMA ordinances on credit, market and operational risk), see the publications of the Federal Department of Finance and FINMA. To be verified. ↩
3. On the small banks regime (Kleinbankenregime) under Art. 47a ff. CAO, in force since 2020, for banks of supervisory categories 4 and 5 meeting certain capital and liquidity criteria, see the CAO and FINMA publications. To be verified. ↩

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