

Proportionality from below: the small banks regime

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The Basel standards were written for internationally active banks. Many jurisdictions apply them to all their banks, however, including small savings banks and cooperative banks with purely domestic business. The compliance costs of the increasingly complex standards weigh disproportionately on such institutions, since the costs of models, reporting systems and specialised staff do not fall in proportion to the size of the balance sheet. After 2010 this concern gave rise to an international debate about proportionality, the idea that the intensity of regulation should correspond to the size, complexity and risk of the institution.¹

Switzerland, with more than two hundred banks of which the great majority are small, gave the debate a particularly radical answer. In 2018 FINMA launched a pilot phase in which a group of small banks could opt out of large parts of the Basel framework if they met strict conditions. The regime became permanent on 1 January 2020, through amendments to the Capital Adequacy Ordinance and to several FINMA circulars. Banks of supervisory categories 4 and 5 qualify if they are particularly well capitalised and liquid. In exchange, they are exempted from the calculation of risk-weighted capital ratios and from the net stable funding ratio, among other requirements, while benefiting from reduced reporting, disclosure and audit duties.²

The core of the regime is a simple leverage ratio, set at a level far above the Basel minimum. A bank that holds equity of about eight per cent of its unweighted exposure, compared with the international minimum of three per cent, needs no risk weights to show that it is safe. The regime turns the logic of Basel II and Basel III on its head. Where the international framework adds layers of risk sensitivity, the Swiss small banks regime replaces them with a single robust measure, set high enough to absorb the risks that the weighting would have measured. FINMA extended the exemptions further in 2024 and adjusted the regime to the final Basel III

standards.³ According to FINMA's publications, a substantial share of the eligible banks has opted for the regime, among them regional banks and smaller private banks in the Basel region.

The Swiss approach influenced a debate that took place in parallel elsewhere. In the United States, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 led to a community bank leverage ratio, which allows qualifying banks with assets of less than ten billion dollars to meet a single leverage requirement instead of the risk-based capital rules.⁴ In the United Kingdom, the Prudential Regulation Authority developed a *strong and simple* framework for small domestic deposit takers in several stages after 2021. Its discussion papers examined foreign models, including the Swiss regime, although commentators noted that the British authority chose a more cautious path that kept risk-weighted requirements in simplified form.⁵ In the European Union, the revised Capital Requirements Regulation of 2019 introduced the category of small and non-complex institutions with simplified reporting and disclosure. The Swiss regime remains the most consistent example of a jurisdiction that replaced the Basel calculation for small banks by a single high leverage ratio. It shows that a member of the Committee can contribute to the international debate by testing an alternative at home, in addition to negotiating standards in Basel.

1 Notes

1. On the proportionality debate in banking regulation after Basel III, see the Basel Committee's survey *Proportionality in bank regulation and supervision* (2019) and the FSI Insights paper *Proportionality in banking regulation: a cross-country comparison* (August 2017). To be verified. ↩
2. On the small banks regime (Kleinbankenregime), its pilot phase from 2018 and its permanent introduction on 1 January 2020 (Art. 47a ff. CAO), including the eligibility conditions (simplified leverage ratio of 8 per cent, liquidity coverage ratio of at least 110 per cent, refinancing ratio of at least 100 per cent) and the exemptions, see FINMA's dossier on the small banks regime. Figures to be verified. ↩
3. On the further exemptions introduced in the small banks regime in 2024 and its adaptation to the final Basel III standards, see FINMA, "Further exemptions in the small banks regime are strengthening proportionality in supervisory activities" (2024). To be verified. ↩
4. On the community bank leverage ratio framework under section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection

Act of 2018, adopted by the US federal banking agencies in 2019 and applicable from 2020, see the final rule of the federal banking agencies. To be verified. ↩

5. On the Prudential Regulation Authority's "strong and simple" framework for small domestic deposit takers (discussion paper DP1/21 of April 2021 and the subsequent consultation and policy statements on liquidity, disclosure and capital) and its references to international regimes for small banks, see the publications of the Bank of England. Status to be verified. ↩

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