

Too big to fail

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The financial crisis of 2008 and the rescue of UBS led Switzerland to adopt a special regime for systemically important banks, known as the too-big-to-fail regime, which entered into force in 2012. The regime designates as systemically important those banks whose failure would seriously damage the Swiss economy and financial system. They are subject to higher capital requirements, both for the going-concern capital that absorbs losses while the bank continues to operate and for the gone-concern capital, consisting of bail-in bonds, that absorbs losses in a resolution. They must prepare emergency plans to ensure the continuation of their systemically important functions in Switzerland, and recovery and resolution plans.¹

The Swiss National Bank designates the systemically important banks. In addition to UBS and formerly Credit Suisse, the designated banks include three domestically oriented institutions: PostFinance, the Raiffeisen group and the Zürcher Kantonalbank. The capital requirements for the domestic systemically important banks are lower than for the global systemically important bank, UBS, but higher than for ordinary banks.

The collapse of Credit Suisse in 2023 was the first test of the regime, which did not pass it in the form intended. The authorities had prepared a resolution of Credit Suisse, in which the bank would have been recapitalised by converting its bail-in bonds into equity, under the control of FINMA. They chose not to apply it, because they feared that a resolution would trigger a loss of confidence in the Swiss financial centre and in international markets. The takeover by UBS, supported by public guarantees and liquidity, was regarded as the less risky option. The choice showed that a resolution regime that is legally available may not be politically and practically usable in a real crisis. The Financial Stability Board, which developed the international standards for resolution, has examined this lesson.²

1 Notes

1. On the Swiss too-big-to-fail regime (Art. 7 ff. Banking Act, in force since 1 March 2012, and the corresponding provisions of the CAO) and the designated systemically important banks (UBS, PostFinance, Raiffeisen, Zürcher Kantonalbank, formerly Credit Suisse), see the publications of the SNB and FINMA. To be verified. ↩
2. On the Financial Stability Board's review of the lessons of the 2023 bank failures for the international resolution framework (report of October 2023), see the FSB publications. To be verified. ↩

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