

Legacy: the lessons that shaped too big to fail

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The rescue of UBS left three lessons that later shaped Swiss regulation. The first concerned capital. The Swiss finish of the years before 2008 had not prevented UBS from operating with a capital-to-assets ratio of around 2.5 per cent. Its risk-weighted ratios had given a misleading impression of strength because the positions that caused the largest losses consumed almost no regulatory capital. The Banking Commission responded in November 2008 with the leverage ratio and higher capital targets for the big banks described above.¹ The Swiss National Bank had already called for a floor on the capital-to-assets ratio as a complement to tighter risk-weighted requirements in its Financial Stability Report of June 2008.²

The second lesson concerned size. The fact that two banks with a combined balance sheet of several times the national product could threaten the Swiss economy as a whole led the Federal Council to set up an expert commission on the too-big-to-fail problem.³ Chaired by Peter Siegenthaler, former director of the Federal Finance Administration, the commission unanimously submitted its final report on 30 September 2010. It identified the two big banks as systemically important and proposed a package of measures on capital, liquidity, risk diversification and organisation, the last aimed at ensuring that systemically important functions could be continued in a crisis. Its capital proposals envisaged total capital of 19 per cent of risk-weighted assets, including contingent convertible bonds, to be phased in by 2019.⁴ Parliament adopted the corresponding amendments to the Banking Act in 2011. Chapter G.IV traces their content and their application.

The third lesson concerned the tools of crisis management. In 2008 the authorities had no resolution regime, no recovery and resolution plans and no statutory basis for recapitalising a bank. They depended on emergency law, on the willingness of the bank to cooperate and on the balance sheet of the National Bank. The too-big-to-fail legislation sought to replace

that improvisation with rules. In March 2023, when Credit Suisse failed, the authorities again relied on emergency ordinances under Articles 184 and 185 of the Constitution. They chose once more a solution in which the state provided liquidity and guarantees, leaving the resolution tools of the new regime unused.⁵ The Federal Department of Finance has itself compared the two operations, noting that the rescue of UBS in 2008 ultimately cost the taxpayer nothing.⁶ Whether the lessons of 2008 were learned too narrowly is the question that chapters G.V and G.VI examine.

For the Zurich financial centre, the legacy of 2008 goes beyond regulation. The crisis showed that the reputation of Swiss banking, built over two centuries on stability, discretion and prudence, could be damaged within a few quarters by activities conducted far from Zurich and poorly understood there. It also showed that the Swiss state, for all its reluctance to intervene in the economy, would not allow a bank of systemic importance to fail. That implicit guarantee became the problem that the too-big-to-fail regime was designed to remove. The profitable outcome of the rescue made it easier for Switzerland to present 2008 as a crisis successfully managed. It made it harder to maintain the sense of urgency that the reform of the big banks required.

1 Notes

1. Swiss Federal Banking Commission, Jahresbericht 2008 (as above), section on capital requirements. ↩
2. Swiss National Bank, Financial Stability Report 2008 (as above), overview. ↩
3. Swiss Federal Council, press release “Bundesrat setzt Expertenkommission zum Thema ‘too-big-to-fail’ ein”, 4 November 2009, <https://www.news.admin.ch/news/message/attachments/17309.pdf>. ↩
4. “Im Gespräch mit Peter Siegenthaler, Präsident der Expertenkommission Too big to fail”, Die Volkswirtschaft, December 2010, <https://dievolkswirtschaft.ch/de/2010/12/siegenthaler/>. ↩
5. Swiss Federal Council, Anwendung von Notrecht (as above), which treats the ordinance of 16 March 2023 on additional liquidity assistance loans and default guarantees alongside the UBS recapitalisation of 2008. ↩

6. Federal Department of Finance, “Differences relative to the stabilisation of UBS, Swiss and Axpo, and to COVID-19 credits” (as above). ↩

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