

The Federal Council's report on banking stability of 10 April 2024

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The Banking Act obliges the Federal Council to review the too-big-to-fail provisions periodically and to report to Parliament. The collapse of Credit Suisse turned this routine duty into the central document of the reform. On 10 April 2024 the Federal Council published its report on banking stability, in which it concluded that the existing regime had to be developed further and strengthened.¹ The report combines an account of the crisis, an evaluation of the existing rules and a catalogue of measures. It remains the reference text for every later step.

The Federal Council organised its proposals under three headings: strengthening prevention, strengthening liquidity, and expanding the crisis toolkit. Under these headings it recommended 22 measures for implementation and a further group of measures for more detailed examination.² Under prevention it placed a senior managers regime, stricter rules on bonuses with retention periods and clawback, tighter capital requirements for systemically important banks, broader powers of early intervention for FINMA, and an examination of a power to fine. Under liquidity it listed the higher liquidity holdings of the banks themselves, which had already been introduced on 1 January 2024, an expanded capacity of the SNB to provide liquidity, and the enactment of a public liquidity backstop in ordinary law. The crisis toolkit was to be widened by better resolution planning, a reduction of the legal risks associated with a bail-in, and stronger cooperation among the authorities.

The capital proposals were described in some detail. The report called for a stronger capital backing of the participations that the Swiss parent bank holds in its foreign subsidiaries, so that the parent retained room for manoeuvre in a crisis and was protected against the ring-fencing measures of foreign authorities. It recommended forward-looking elements in the institution-specific Pillar 2 surcharges, based on stress tests, profitability

analyses and market indicators such as ratings and credit default swap spreads. It proposed a stricter treatment of assets whose value could not be realised in a crisis and a strengthening of the loss-absorbing function of AT1 instruments while the bank was still a going concern.³ Each of these items would reappear, sometimes in modified form, in the package of June 2025.

The report was equally significant for what it rejected. The Federal Council saw no need for fundamental restrictions on the group structure of banks, whether through a separated banking system or through limits on size, and considered that the existing deposit protection framework was adequate. It restated the three classical objectives of the regime, namely reducing the risks for the financial system, maintaining the functions vital for the economy and avoiding the use of public money, and declared them still valid. It also conceded that the crisis had revealed tensions among them. The report stated that the primary aim was a strengthening of accountability, of banks, of their organs and of their customers, and explicitly disclaimed a greater reliance on the state. On emergency law it adopted a careful formula: the possibility of acting under emergency law in specific crisis situations could not be ruled out categorically, although the Federal Council should refrain from it wherever possible.⁴

The figure of 180 per cent of gross domestic product explains much of what followed. Since no Swiss merger partner exists for a bank of that size, only a public rescue would remain, which would strain even the strong finances of the Confederation. The logic of the report therefore pointed towards a bank that must be able to save itself, through its own capital and liquidity, or be resolved without public money. This logic would later collide with the business case of UBS, whose management argued that the bank was already safe and that additional requirements would only weaken it against its international competitors.

Commentators welcomed the breadth of the report but criticised its vagueness on concrete measures. The report stated which instruments should be strengthened without stating by how much, leaving the calibration of the capital requirements to a later stage.⁵ That later stage arrived in June 2025, after Parliament had added its own voice.

1 Notes

1. Federal Department of Finance, "Federal Council report on banking stability", 10 April 2024, <https://www.efd.admin.ch/en/report-tbtf>. The page cites Article 52 of the Banking Act and the parliamentary mandates as the basis of the report. ↩

2. Federal Department of Finance, “Federal Council report on banking stability”, 10 April 2024, <https://www.efd.admin.ch/en/report-tbtf>. The page lists the three focus areas and states that 22 measures are proposed. ↩
3. Federal Council, Report on banking stability, 10 April 2024, sections on capital requirements, <https://www.efd.admin.ch/dam/en/sd-web/LuYox2INDaQy/bericht-br-tbtf-en.pdf>. The report ties the capital proposals for foreign participations to the experience of foreign ring-fencing during the Credit Suisse crisis. ↩
4. Federal Council, Report on banking stability, 10 April 2024, <https://www.efd.admin.ch/dam/en/sd-web/LuYox2INDaQy/bericht-br-tbtf-en.pdf>. The report puts the total assets of the combined UBS at more than CHF 1,400 billion at the end of 2023, around 180 per cent of Swiss gross domestic product. ↩
5. Rashid Bahar, “Federal Council report impressive but still too vague”, Centre de droit bancaire et financier (CDBF), University of Geneva, 3 May 2024, <https://cdbf.ch/en/1343/>: the report “is still vague, even timid, when it comes to concrete measures: it gives a general description of the measures envisaged, but we will have to wait for the preliminary drafts”. ↩

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