

Too big to fail: the regime of 2011 and its application — overview and summary

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The rescue of UBS in October 2008, described in the preceding chapter, left Switzerland with a problem that no emergency measure could solve. A state that has once shown that it will not let its largest bank fail has given every creditor of that bank a reason to expect the same treatment next time. The expectation lowers the bank's funding costs, encourages it to grow and to take risk, and turns the public purse into an unpaid guarantor of private balance sheets. For a country whose two largest banks together carried balance sheets several times the size of its economy, the question was existential in a literal sense. A second rescue on the scale of 2008 might have exceeded what the Confederation could afford, while a disorderly failure would have taken with it the payment system, a large share of domestic lending and the savings of hundreds of thousands of households. The Swiss answer, developed between 2009 and 2011 and refined ever since, became known by the English phrase that described the problem: "too big to fail", abbreviated in Bern and at the Paradeplatz as TBTF.

This chapter traces the construction of that answer and its fate. It begins with the expert commission that the Federal Council appointed in November 2009 under the chairmanship of Peter Siegenthaler and with the package of measures that the commission proposed in the autumn of 2010. It then examines the amendment of the Banking Act adopted by Parliament on 30 September 2011 and in force since 1 March 2012, as well as the designation of systemically important banks by the Swiss National Bank. Two pillars carry the regime: the prudential requirements on capital and liquidity, which aim to make failure less likely, and the resolution planning, which aims to make failure survivable. The chapter follows the successive recalibrations of 2016, 2019 and 2022, the implementation of the Basel III standards up to the final package in force since 1 January 2025 and the periodic reports in which the Federal Council evaluated its own regime. The last part turns to March 2023, when the regime met the case for which

it had been built and the authorities chose not to use its central instrument. The details of the collapse of Credit Suisse belong to the next chapter. Here the question is narrower: what the events of 2023 revealed about the design of the regime, and what TBTF means for a financial centre that entered the regime with two global banks and leaves the period under review with one.

The subject matters to Zurich in a very direct way. The two global banks designated in 2012 had their head offices a few hundred metres apart. The third designated bank, the Zürcher Kantonalbank, is owned by the canton, which guarantees its liabilities. Much of the practical work of the regime, from the drafting of emergency plans to the issuance of contingent convertible bonds and the creation of new Swiss subsidiaries, was done by lawyers, bankers and auditors in the city. The TBTF regime is therefore part of the institutional fabric of the Zurich financial centre in the same way as the Banking Act of 1934 or the anti-money laundering legislation of the 1990s. Anyone who advises a bank, a bondholder or a counterparty in Zurich today works within the architecture that this chapter describes.

1 Conclusion

The TBTF regime adopted in 2011 was Switzerland's answer to the lesson of the UBS rescue: that a country with banks several times the size of its economy cannot rely on the state as an implicit guarantor. The expert commission chaired by Peter Siegenthaler designed a package that combined higher capital, stricter liquidity, risk diversification and emergency planning. Parliament adopted it in the form of Articles 7 to 10a of the Banking Act, gave the SNB the power to designate systemically important banks and entrusted FINMA with the implementation. Over the following decade the regime was recalibrated several times. The revision of 2016 introduced a leverage ratio of 5 per cent and gone-concern requirements of equal size for the big banks. The domestic banks received gone-concern requirements from 2019. The rebate system gave way to a surcharge mechanism, the liquidity rules were strengthened and the final Basel III package entered into force on 1 January 2025.

By 2022 the regime appeared close to completion. The capital had been raised, the group structures reorganised, the emergency plans of the big banks approved and the bail-in anchored in the Banking Act. When Credit Suisse failed in March 2023, the authorities nevertheless chose a merger with UBS supported by state liquidity guarantees over the resolution that FINMA had prepared. The official reviews explain the decision by the risks of a first-time bail-in of a global bank in turbulent markets and by the uncertainty over whether a restructuring would restore confidence. They

also identify weaknesses in the regime: recovery plans that did not work, liquidity that proved insufficient, a parent bank whose capital had been weakened by relief and filters, and supervisory powers that lagged behind those of foreign authorities.

The legacy of the regime is thus ambiguous. It made the Swiss big banks far more resilient than they had been in 2008 and provided a reserve of loss-absorbing capital that remained available when the crisis came. It neither removed the implicit guarantee nor gave the authorities enough confidence to use their central instrument. Since 2023 Switzerland has had one global bank in place of two, larger in relation to its home economy than any other G-SIB. The reforms proposed since 2024 continue the logic of 2011 with new emphases, but the fundamental choice made by the expert commission in 2010, to regulate size through capital and planning while leaving the business model to the banks, remains the foundation of the regime.

2 In five sentences

1. The TBTF regime grew out of the UBS rescue of 2008: an expert commission chaired by Peter Siegenthaler reported on 30 September 2010, and Parliament adopted Articles 7 to 10a of the Banking Act on 30 September 2011, in force since 1 March 2012.
2. The SNB designated UBS and Credit Suisse, then the Zürcher Kantonalbank in 2013, Raiffeisen in 2014 and PostFinance in 2015, as systemically important banks subject to higher capital and liquidity requirements and to emergency planning.
3. The capital regime, first set at about 19 per cent of risk-weighted assets with contingent convertible bonds, was recalibrated in 2016 to a going-concern leverage ratio of 5 per cent and an equal gone-concern requirement met with bail-in bonds, later extended to the domestic banks.
4. FINMA built a resolution framework around a single point of entry bail-in at the level of the group holding company, but in March 2023 the authorities chose a merger of Credit Suisse into UBS over a first-time resolution of a global bank.

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5. The lessons identified since then concern recovery planning, liquidity, the capital of the parent bank and FINMA's powers, and they shape the reform of a regime that must now secure a financial centre with only one global bank.

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