EUROPE MARKETS

Swiss Politicians Push for Stricter Bank Capital Rules

Officials on Right and Left Want UBS, Credit Suisse to Face Tougher Rules on Leverage Ratios

By JOHN LETZING
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ZURICH—Swiss politicians are mounting an effort to curb the country's banking giants with new restrictions that could be more severe than those in place elsewhere.

Convinced that even Switzerland's comparatively strict banking regulations aren't enough to protect the small country from the effects of a potential failure of UBS AG or Credit Suisse Group AG, lawmakers here are aiming broadly at the banks' balance sheets.

In recent weeks, Swiss politicians have proposed rules that could force the two banks to make far fewer loans and investments in relation to the capital they keep on hand. The proposed restrictions on so-called leverage ratios, which might be voted on in Parliament next year, could boost stability but also make it more difficult for the institutions to vie with other international behemoths, experts and analysts say.

One of the proposals, supported by the left-wing Social Democrats, could force the banks to maintain minimum leverage ratios of 10%, or 10 Swiss francs in capital for every 100 francs they hold in assets. The right-wing Swiss People's Party has proposed a ratio of 6%. Credit Suisse recently said its ratio has reached 3.5%, while UBS reported a 3.2% figure. Current Swiss rules mandate that they reach above 4% in the next five years.

Switzerland isn't alone in zeroing in on leverage ratios. In the European Union, international rules require banks to generally reach a minimum 3% leverage ratio by 2018. Earlier this year, U.S. financial regulators called for a leverage ratio requirement of up to 6% for the country's big banks, also by 2018.

The Social Democrats and Swiss People's Party, which are working together for tighter regulation, collectively hold more than half of the seats in the lower house of Parliament. Their recent leverage proposals follow a pair of other measures approved in the lower house in September, also aimed at carving risk out of the country's big banks by splitting off parts of their investment banks. "This keeps the momentum going," said Stefan Hostettler, the Social Democrats' economics and finance secretary.

Behind the moves to curb the banks are memories of a government bailout of UBS in 2008 after the lender racked up some $50 billion in losses by betting heavily on the U.S. mortgage market. The bailout prompted Swiss regulators to implement local requirements for banks to maintain a protective layer of capital on top of international standards, known as the "Swiss finish."

Now, some politicians want to add more rules before memories of the financial crisis fade. They say existing requirements aren't enough, because the two big banks here wield so much influence...
over the country.

Last year, UBS and Credit Suisse accounted for about half of the value in assets held by all Swiss lenders. The combined balance sheet of the banks is more than three times the size of Switzerland’s roughly $630 billion annual gross domestic product. If the banks were to stumble, politicians say, the country would struggle to bail them out.

“Switzerland is in a bit of a special position,” says Thomas Aeschi, a former Credit Suisse investment banker and current member of the Swiss People’s Party. Mr. Aeschi is spearheading his party’s leverage proposal.

Leverage ratios used around the world are similar but not identical, making precise comparisons difficult. Nearly a dozen varieties exist, according to a recent research report from UBS. Additionally, U.S. banks can more easily shed assets—boosting their leverage ratios—by selling off mortgages to Fannie Mae and Freddie Mac.

Rather than simple leverage ratios, the big Swiss banks like to emphasize the specific level of risk associated with different assets on their balance sheets, an approach known as risk weighting. Regulators counter that the math behind risk weighting is too easy for banks to manipulate, making the leverage ratio a key counterpoint.

UBS and Credit Suisse each say they’ve made big strides in recent years to raise fresh capital and trim assets. But Swiss National Bank official Jean-Pierre Danthine said in a speech last month that despite that progress, leverage ratios at UBS and Credit Suisse “are still low.” Swiss Finance Minister Eveline Widmer-Schlumpf echoed that sentiment in an interview with a Swiss newspaper published on Sunday, urging stricter leverage requirements.

A narrowed focus on leverage ratios comes as the companion proposals to split UBS and Credit Suisse from risky investment-banking operations, approved in the lower house of Parliament in September, are expected to be addressed in the upper house next year.

There is some skepticism that the latest batch of proposed banking restrictions will ultimately become law. Tobias Straumann, a lecturer in economic history at the University of Zurich, noted that the big parties touting the new measures may have a majority in the lower house, but they hold less sway in the upper house.

Still, the political atmosphere is prompting the big banks to act. UBS disclosed last week it’s in talks with the Swiss Financial Market Supervisory Authority about establishing a new unit to house its Swiss retail and private bank, quarantining those core businesses from the investment bank.

Mr. Hostettler, of the Social Democrats, says his party is essentially seeking to take the country’s big banks back to a simpler, less risky era when investment banking abroad hadn’t yet damaged Swiss banking’s reputation as a pillar of stability.

UBS and Credit Suisse, he said, “should really have an interest in going back to a more traditional approach.”

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