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Consultation response on the amendment of the Banking Act and the Capital Adequacy Ordinance (Capital Backing of foreign participations at the parent-bank level of systemically important banks) dated 26 September 2025

Statement by Orbit36 Risk Finance Solutions AG

16 December 2025

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1. Introduction

Orbit36 Risk Finance Solutions AG (Orbit36) is a consulting firm specialising in strategic planning, treasury, risk, and capital management for banks and other financial institutions. In light of our relevant practical experience and technical expertise in the areas concerned by the proposed amendments to the Banking Act and the Capital Adequacy Ordinance, we hereby submit our views as part of the ongoing consultation process. Since 2019, Orbit36 has advised financial institutions in Switzerland and abroad on regulatory and strategic matters. Our analyses and commentaries have repeatedly been cited in specialist publications and public discourse and have contributed to the assessment of recent developments in the banking sector.

Orbit36 supports the Federal Council's objective of drawing lessons from the Credit Suisse crisis and further strengthening the stability of systemically important institutions. At the same time, we consider a differentiated and risk-appropriate design of the proposed measures to be essential to avoid unintended adverse effects on the international competitiveness of Swiss banks. This consideration is of particular importance in the current environment, in which clear trends towards regulatory relief can be observed in several international financial centres.

There is broad consensus that the Swiss parent banks of systemically important banking groups play a pivotal role and need to be adequately capitalised. It must be ensured that not only the group, but also the parent bank, can be resolved, if necessary, without losses being incurred by customers, creditors or, ultimately, taxpayers in Switzerland. In the case of Credit Suisse, the Swiss-domiciled parent bank was not sufficiently capitalised for this purpose, due in part to inconsistent implementation and certain methodological shortcomings.

Through the proposed full deduction of foreign participations from Common Equity Tier 1 capital (CET1), the Federal Council aims to ensure that the capital ratio of the parent bank is fully insulated from any potential losses arising from participations in foreign subsidiaries. In practice, this requirement is only relevant for UBS. Even in the event of a total loss on all foreign participations amounting to approximately USD 50 billion—which would be unlikely even under an extreme scenario such as the bankruptcy or orderly resolution of the group—the draft provisions would still permit unchanged capital ratios to be reported at the level of the UBS parent bank, provided that no additional losses arise within other group entities domiciled in Switzerland. From our perspective, this outcome appears excessive.

In our view, there is a disproportion between the benefits of the proposed measures and the costs they entail. **We therefore reject the consultation draft** and regret that alternative approaches capable of achieving the same objective in a more efficient and economically appropriate manner were not sufficiently examined or were dismissed at an early stage. We therefore supplement our consultation response with a **feasible and more appropriate alternative proposal**.

Key considerations

- In the Credit Suisse crisis, the parent bank proved to be the weakest link in the chain. Orbit36 therefore welcomes measures that specifically address the weaknesses in parent-bank regulation revealed by the CS crisis and ensure adequate resourcing of the parent bank that plays a central role for the group.
- The consultation draft goes well beyond the original objective set out in the Federal Council's report on banking stability of 10 April 2024. While that report explicitly calls for measures to strengthen the capital backing of foreign participations at the parent-bank level, it also states that requirements should remain aligned with international rules and practices and take competitiveness into account.
- The full deduction of foreign participations from Common Equity Tier 1 (CET1) capital at the parent-bank level is inefficient. It leads to an increase in the amount of capital UBS, the only institution currently affected by the consultation draft, needs to hold at group level, to an extent that jeopardises the bank's international competitiveness.
- The objective of the consultation draft is defined too narrowly. It seeks to fully immunise parent-bank capital against any effects arising from losses in the value of foreign participations. The objective implicitly presents full backing of foreign participations with CET1 capital as the sole solution. Such an approach would result, though, in the parent bank's CET1 ratio remaining unchanged even after extreme losses.
- The lessons from the CS crisis are insufficiently reflected. One key lesson is the need to apply existing regulations consistently and to incorporate the valuation methodology for participations into the regulatory framework in a manner that no longer permits the generation of capital at the parent-bank level that would not qualify as capital at group level under Basel III.
- A consistent valuation of participations at tangible net asset value can prevent this outcome and significantly reduce the risk of losses on foreign participations, thereby rendering full CET1 backing unnecessary.
- More suitable alternatives to a full CET1 deduction exist to ensure stability and protect customers and creditors of UBS's Swiss parent bank in a crisis. Capital backing of foreign participations should be more closely aligned with the risks arising under different scenarios and, in line with international practice, should make use of the capital instruments envisaged for covering those risks.
- It is important to clearly distinguish between going-concern capital (covering risks in normal banking operations or for stabilisation purposes after losses) and gone-concern capital (covering extreme risks in the context of resolution).
- We specifically propose valuing foreign participations at tangible net asset value, with 60 per cent backed by CET1 and the remaining 40 per cent covered by instruments eligible for total loss-absorbing capacity (TLAC).
- This approach ensures that customers and creditors of the parent bank, as well as Swiss taxpayers, are fully protected against losses arising from foreign participations, even in the unlikely event of the resolution of UBS, without placing an excessive burden on UBS's banking operations under normal conditions.

2. Capital requirements for systemically important banks

2.1. The role of capital in banks

Adequate capital is essential for every bank. It enables them to cover the risks arising from their operating business, absorb losses, and remain capable of acting in times of crisis. A solid capital base creates confidence among customers, investors, supervisory authorities, and the market. It provides an institution with stability and the ability to cope with unexpected events using its own resources. Capital therefore serves as an essential buffer to absorb unexpected losses and to protect creditors and depositors in a severe crisis.

Systemically important banks (SIBs) are subject to higher capital requirements than other institutions, both in Switzerland and internationally. This reflects their particular importance for financial stability: the failure of a SIB can have substantial repercussions for the economy, the financial system, and the state. Additional capital buffers ensure that SIBs remain solvent even under extreme stress conditions and that sufficient flexibility exists to implement stabilisation measures or, if recovery fails, facilitate an orderly resolution.

Capital, however, is not a panacea. It would be illusory to assume that a bank can be protected from all risks solely through a high level of capitalisation. A lack of integrity, an unsustainable business model, operational weaknesses, or deficiencies in risk management can impair an institution's stability and credibility to the same extent as an insufficient capital base. Capital is therefore a necessary, but not sufficient, condition for sustainable stability.

2.2. The function of different capital instruments at SIBs

Bank capital consists of different components serving different purposes (see Box 1 below). The corresponding regulatory framework was developed in a coordinated manner at the international level in the aftermath of the 2008/2009 financial crisis, with a particular focus on G-SIBs. A leading role in this process was played by the Financial Stability Board (FSB), which was established by the G20 in 2009 with the aim of strengthening international cooperation on financial stability issues and coordinating the implementation of the global reform agenda.

The Swiss too-big-to-fail (TBTf) framework makes a clear distinction between going-concern capital, which ensures the orderly continuation of a bank's business operations, and gone-concern capital, which, in the case of SIBs, is available as needed to finance resolution.

Box 1: Capital structure of systemically important banks

Going-Concern-Kapital

Common Equity Tier 1 (CET1)

CET1, also referred to as core equity capital, is the highest-quality form of capital. It consists primarily of share capital and retained earnings and can absorb losses immediately. CET1 forms the basis for the safe operation of a bank and must be maintained at a level sufficient to cover even material unexpected losses.

In a stress situation, the CET1 capital ratio may temporarily fall below the regulatory target level. Swiss capital regulations, consistent with the Basel III framework, provide for capital buffers that may be deliberately drawn down in times of crisis. In such cases, however, banks are subject to restrictions on distributions, share buybacks, and variable remuneration until the capital base has been rebuilt.

Additional Tier 1 (AT1)

AT1 is also part of core capital but absorbs losses only upon conversion or write-down. In Switzerland, AT1 instruments at SIBs consist of debt that is automatically converted into equity or written down in full once the CET1 ratio falls below 7 per cent.¹ As a result of such conversion or write-down following large losses, CET1 increases again, thereby re-establishing the level required for the bank's continued operation. This creates the conditions for recovery. FINMA may also order such conversion or write-down if it considers the bank no longer viable without this step or if recovery or resolution is imminent.

Gone-concern capital

Gone-concern capital represents the last line of defence in the event of the failure of a SIB. It is not available to the bank to support the continuation of normal business activities, but it instead permits authorities to finance the recovery or an orderly resolution of the institution. Following such measures, the bank will either cease to exist or continue only in a significantly altered form. As part of this process, management and the board of directors are typically replaced.

For more detailed information on the role of the different capital components of systemically important banks, we refer to our blog post of 9 October 2025 (in German):

<https://www.orbit36.com/kapital-von-systemrelevanten-banken-mehrstufiger-schutz-fur-kunden-und-steuerzahler/>

¹ Both in the case of conversion into equity and in the case of full write-down, new CET1 capital is generated for the bank.

2.3. How costly is equity?

Equity is a valuable resource for all companies, not only banks. Shareholders, as owners, provide the required equity capital, bear the entrepreneurial risks, and expect a return commensurate with those risks. The level of this return is determined by the opportunity costs of an alternative investment with a comparable risk profile in the capital market. As the cost of equity cannot be directly observed, it is commonly estimated using the Capital Asset Pricing Model (CAPM).

Financial analysts estimate UBS's cost of equity at around 10 per cent. Based on the input parameters typically used, this estimate appears plausible to us. What is striking, however, is that analysts' estimates have changed little since 2012, even though UBS has built up substantial additional capital over this period as a result of the introduction of the Swiss TBTF framework.² According to academic theory, a substantial reduction in the cost of equity would be expected in such a case under the Modigliani–Miller theorem. At the same time, the resulting lower probability of default should lead to lower funding costs.³

Findings from empirical research suggest that the effects of higher capital requirements are at least partially offset by lower capital costs. However, we are sceptical as to whether this effect can materialise in practice to the extent predicted. In our view, market reactions argue against this. When the broad outlines of the government's proposal and its substantial implications for UBS's required capital became known in April 2024, UBS's share price declined by around 8 per cent, while debt funding costs, as measured by UBS CDS and AT1 spreads, remained unchanged. The market thus anticipated a reduction in distributions necessary to build up capital over the coming years. By contrast, the simultaneous decline in the cost of equity implied by the Modigliani–Miller theorem was only partially priced in. If the theory were fully applicable, the share price should have remained unchanged.

Orbit36 therefore believes that fully backing foreign participations at the parent-bank level entails significant incremental costs.

For more detailed information on banks' cost of equity, we refer to our blog article of 11 December 2025 (in German):

<https://www.orbit36.com/eigenkapitalkosten-von-banken-was-sagt-uns-der-markt-im-fall-der-ubs/>

² UBS regularly collects estimates from financial analysts regarding its cost of equity and, in its statement of 29 September 2025, shows their development in comparison with the CET1 leverage ratio.

³ See, for example, Böni/Zimmermann, "The Effective Cost of Capital Buffers for UBS: A Reappraisal Based on Empirical Research", August 2025.

3. Capital requirements at the parent-bank level

3.1. Level addressed by the consultation draft

When assessing the capital of an internationally active bank, the primary focus is on the consolidated group. The capital requirements of a banking group domiciled in Switzerland are determined on the basis of the group's worldwide balance sheet and risk exposures but measured in accordance with Swiss TBTF standards. As a result, an internationally active bank domiciled in Switzerland is often required to hold more capital for identical business activities abroad than would be required under the regulations applicable in the respective host countries. This creates a competitive disadvantage vis-à-vis local competitors.

In addition, banking groups domiciled in Switzerland are subject to capital requirements at the level of the parent bank, i.e. at the solo-entity level.⁴ Those must be clearly distinguished from the capital requirements at group level, which exist in parallel.⁵ Although both regulatory frameworks cover the same underlying business activities and assets, they assess them from different perspectives and serve different purposes.

Because the requirements partially overlap and are redundant in certain areas, some jurisdictions (e.g. the United States and, in part, the European Union) grant a waiver from capital requirements at the parent-bank solo level and instead apply so-called sub-consolidation, under which the parent bank and its subsidiaries are treated as a sub-group subject to capital requirements at the sub-consolidated level. This approach offers several advantages for banks in these jurisdictions. In particular, it facilitates centralised treasury management, as liquidity and capital can be transferred freely within the sub-consolidated group. Especially in a crisis affecting regions to different degrees, the ability to redeploy resources quickly to where they are most urgently needed can be decisive.

3.2. Are standalone capital requirements justifiable at the parent bank level?

Considering varying regulatory approaches across jurisdictions at lower levels, the fundamental question arises as to whether, and for what purpose, Switzerland requires capital requirements at the parent-bank level, noting that Basel III regulates capital requirements exclusively at the group level.

Additional capital requirements for the parent bank as a single entity enable a country to influence where capital is held within an international banking group. Given the limited size of the Swiss domestic market, both UBS and the former Credit Suisse maintain

⁴ If the parent company were domiciled abroad, it would be subject to the capital requirements of the respective country of domicile.

⁵ Capital requirements exist for a Swiss G-SIB at six levels: the consolidated group, the parent company as a solo institution, the parent company on a consolidated basis, the Swiss entity as a solo institution, the Swiss entity on a consolidated basis, as well as requirements imposed on foreign subsidiaries under foreign law.

extensive foreign operations. Against this background, capital requirements at the level of the parent bank domiciled in Switzerland can be justified in principle.

In designing these requirements, it must be ensured that they are largely consistent with the parallel requirements at group level and at least do not contradict them. Deviations from group-level capital requirements should be limited to cases in which additional capital backing addresses clearly identified and material risks. Additional requirements going beyond group-level requirements inevitably impair a bank's international competitiveness and should therefore be justified by an appropriate cost–benefit ratio. In the case of the consultation draft, this condition is not met.

The consultation draft partially draws incorrect conclusions from the events surrounding Credit Suisse and refrains from implementing effective measures in the area where the actual weaknesses of the current framework lie. In particular, the fact that Credit Suisse was able to generate additional capital at the parent-bank level through the valuation of its foreign participations is insufficiently addressed.⁶ In our view, it would be essential first to close these implementation gaps in the existing regulatory framework. Doing so would render far-reaching measures, such as the proposed full backing of foreign participations, unnecessary. We therefore briefly outline below what actually occurred at Credit Suisse and the lessons that can be drawn from it.

4. Lessons from Credit Suisse

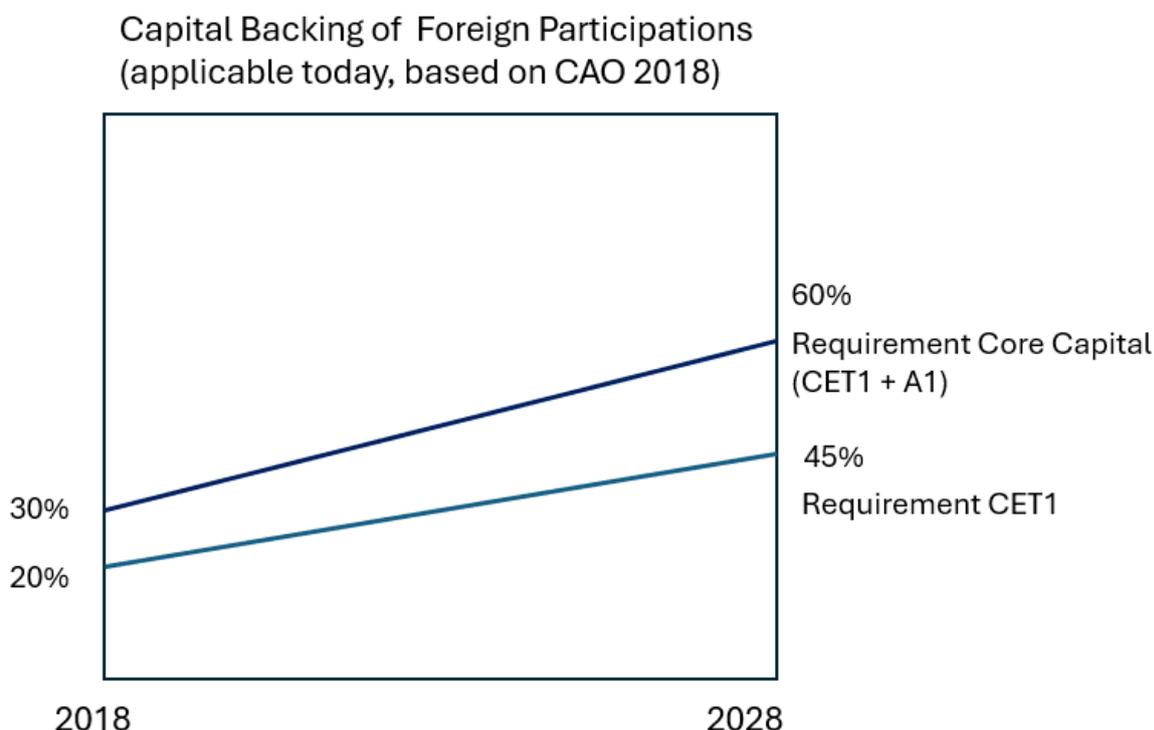
4.1. Situation at Credit Suisse

The crisis at Credit Suisse was primarily the result of severe management failures and an inadequate business model. The resulting loss of confidence led to a first bank run in October 2022, which the bank was still able to manage on its own. In March 2023, however, a second bank run, triggered by external events, precipitated an acute liquidity crisis. This required state intervention and extensive liquidity support from the Swiss National Bank (SNB). Without these measures and the merger with UBS arranged by the authorities over the weekend, the bank would likely no longer have been able to meet its obligations on the following Monday, even though sufficient capital was available at group level.

From 2021 onwards, market participants increasingly questioned the capitalisation of the Swiss parent bank. The revised Capital Adequacy Ordinance (CAO) adopted by the Federal Council in 2018 required capital backing of participations in foreign subsidiaries of only around 30 per cent core capital at the outset, based on risk weights. These risk

⁶ The consultation draft mentions this possibility only in passing, in the first paragraph on page 23 and in footnote 40.

weights increase gradually from 200 to 400 per cent over a ten-year transition period, such that by 2028 capital backing equivalent to around 60 per cent core capital will be required for the foreign participation values (see Figure 1). Regulatory concessions and methodological shortcomings in the parent-bank rules enabled Credit Suisse though to report capital at the parent-bank level that did not exist at group level.



Source: Orbit36 illustration based on the Capital Adequacy Ordinance (CAO)

Figure 1: Capital requirements for foreign participations

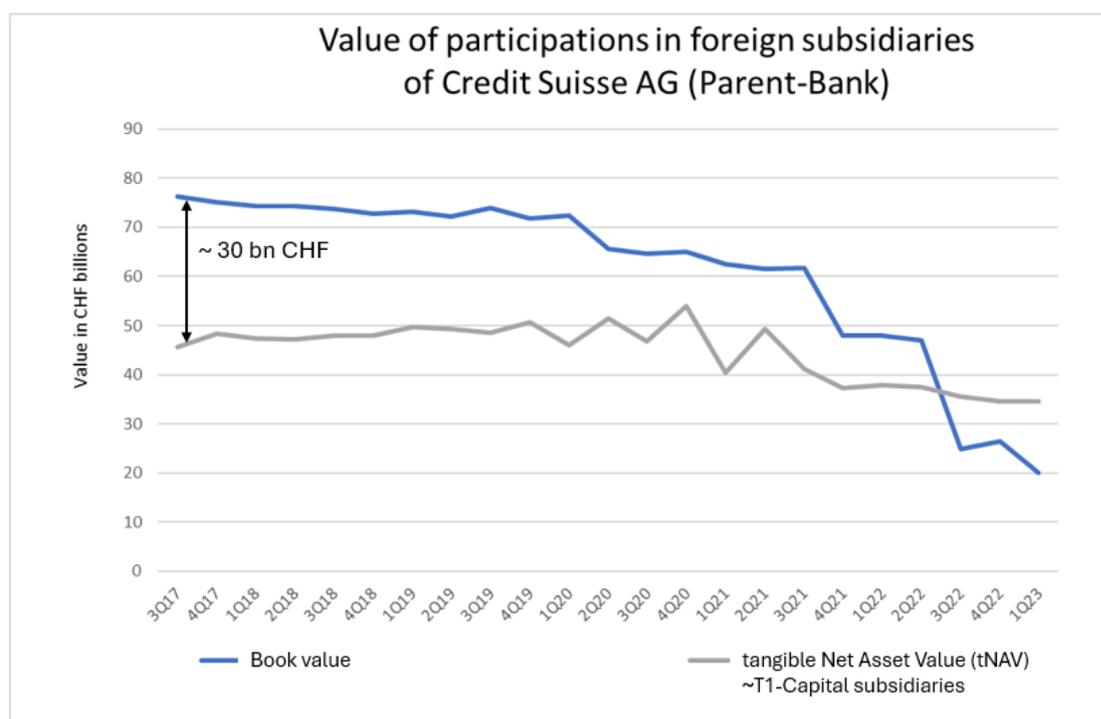
The stepwise increase in the risk weights applied to foreign participations from 200 per cent in 2018 to 400 per cent in 2028 results, assuming a capital backing of 15 per cent core capital (CET1 + AT1), in a total capital requirement of around 60 per cent, of which approximately 45 per cent must be held in the form of Common Equity Tier 1 (CET1). In 2018, the corresponding requirement amounted to around 30 per cent, of which approximately 20 per cent was required to be held in the form of CET1.

4.2. DCF-Valuation method resulted in inflated parent-bank capital

The combination of low capital underpinning and artificially inflated participation values based on optimistic assumptions caused the capital ratios of Credit Suisse’s parent bank to appear more robust than they were in retrospect. This was possible because participations in foreign subsidiaries could be valued on the basis of future earnings forecasts—assumptions that are inherently subjective and based on expectations of uncertain future developments. When such expectations are subsequently revised, corresponding impairments occur that directly and often significantly affect the parent

bank’s capital. By contrast, the valuation of participations has no impact on the capital of the consolidated group.

From today’s perspective, Credit Suisse’s foreign participations were significantly overvalued in the years 2017 to 2019. As a result, additional capital of around CHF 30 billion could be reported at the parent-bank level that was not eligible at group level (see Figure 2). In subsequent years, the original earnings forecasts had to be revised repeatedly and by substantial amounts. Between 2019 and 2023, impairments totalling more than CHF 50 billion were recognised in the solo financial statements of Credit Suisse’s parent bank.



Source: Orbit36 calculations based on the disclosure reports of Credit Suisse AG and the expert opinion Birchler for Parliamentary Investigation Committee (PIC).

Figure 2: Value of foreign participations at the parent bank of Credit Suisse

The chart compares the book value of foreign participations of Credit Suisse AG with their tangible net asset value (tNAV), derived from the regulatory core capital of the subsidiaries. Core capital data is publicly available only for three significant legal entities—Credit Suisse Holdings (USA), Credit Suisse International (CSI), and Credit Suisse Securities Europe Limited (CSSEL). According to the Birchler expert opinion prepared for the Parliamentary Investigation Committee (PIC), their share of the total core capital of foreign subsidiaries amounted to approximately 75 per cent as at end-2019. This share is assumed to remain constant over time in the illustration and is therefore scaled linearly. The difference between the two values indicates the approximate extent of the over- or undervaluation of book values relative to tNAV.

4.3. Loss of confidence due to opaque capital situation

Because the impairments recognised at the parent-bank level were not relevant for the consolidated group accounts, they largely went unnoticed by financial analysts, the media, and the broader public, even though the relevant information was publicly available. A regulatory filter granted by FINMA further obscured a realistic assessment. From 2019 onwards, this concession allowed Credit Suisse to neutralise, for the purposes of calculating capital at the parent-bank level, an impairment of CHF 15 billion recognised as a result of changes in Swiss accounting rules. For further details, we refer to the report of the Parliamentary Investigation Committee (PIC).

The steadily deteriorating capital ratio at the parent-bank level increasingly fuelled market doubts about Credit Suisse's capitalisation from the summer of 2021 onwards and contributed significantly to the loss of confidence and speculation in autumn 2022 about an impending collapse. In some cases, market participants mistakenly interpreted the low capital ratios at the parent-bank level as evidence that the entire group was insufficiently capitalised. From today's perspective, however, there is no indication that this was the case. What was insufficiently understood was that the market-value-based valuation of participations has a procyclical effect and can result in lower capital being reported at the parent-bank level than at group level. This unsuitable valuation approach further intensified pressure on the bank at the height of the crisis.

4.4. Impediments to restructuring measures

The valuation methodology applied at the parent-bank level based on the discounted cash flow (DCF) model not only had a procyclical effect during the crisis but also impeded the implementation of restructuring measures. It became apparent that planned disposals of business units were feasible only at prices significantly below the values recorded on the parent bank's balance sheet. As a result, any such sale would inevitably have led to an impairment and thus to a negative impact on parent-bank capital. As documented in the PIC report, the sale of the securitised products business, for example, would have strengthened capital at group level, while having the opposite effect on the capital ratio at parent-bank level.⁷

4.5. Valuation at tangible net asset value as solution

An important lesson from these events is that participations at the parent-bank level should, in future, be valued at tangible net asset value. This would eliminate the inclusion of earnings forecasts—which are by their nature subject to considerable uncertainty—from regulatory capital and prevent the creation of capital at the parent-bank level on the basis of valuation assumptions that are not eligible at group level.

Under the tangible net asset value approach, the value of participations reflects the net assets and liabilities of the subsidiaries, valued in the same manner as at group level. In addition, the participation value broadly corresponds to the regulatory capital effectively

⁷ See, in this regard, the Parliamentary Investigation Committee report, Box 9 "Sale of the securitized products business (securitization business)", p. 227.

available in the subsidiaries. Deviations arise primarily from differences in regulatory rules across jurisdictions.

Valuation at tangible net asset value significantly reduces the risk of losses on participations. Capital-relevant value adjustments would only be required if actual losses occur in the subsidiaries. A rapid loss of value, such as that observed at Credit Suisse, would no longer be possible if valuation is based on the substance effectively available in the subsidiaries and without future earnings being considered.

For more detailed information on the valuation issue at Credit Suisse's parent bank, we refer to our blog article of 18 November 2025 (in German):

<https://www.orbit36.com/kapitalunterlegung-von-beteiligungen-im-cs-stammhaus-die-ungeloste-bewertungsfrage/>

5. Assessment of the consultation draft

5.1. General remarks

Orbit36 welcomes that the Federal Council assigns high priority to revising the capital backing of foreign subsidiaries at the parent-bank level of systemically important banks. Already at an early stage, we identified the remediation of these deficiencies as one of the most important lessons from the failure of Credit Suisse.⁸

We also share the Federal Council's assessment that sufficient resources must be available in the parent bank to manage a crisis and, if necessary, to ensure an orderly resolution of that key entity domiciled in Switzerland. This includes targeted capital backing, ensuring the availability of liquidity required in an emergency, and the appropriate use of instruments intended for gone-concern scenarios, in particular TLAC instruments.

By proposing a full deduction of the value of foreign participations, the Federal Council puts forward a solution that is simple, but undifferentiated. Such an approach would have severe consequences for the institutions concerned, as it would impair their international competitiveness. In this context, individual shareholders of UBS have already called for an examination of a potential relocation of the bank's headquarters abroad. It is not our role to pursue such considerations or speculation further. What is important to us, however, is to find a regulatory solution that safeguards Switzerland's interests while not disproportionately impairing the international competitiveness of globally systemically important banks domiciled in Switzerland.

⁸ See citation Orbit36 in the Wall Street Journal of 8 November 2023, "How a Banking Capital of the World Botched Its Own Banking Rules"

In the explanatory report to the proposed legislative amendment, the Federal Council expresses concern that, in a crisis, impairments on foreign participations could substantially reduce the regulatory capital of the Swiss parent bank and thereby consume capital that is supposedly intended for other purposes, in particular for covering risks arising from the parent bank's own operating banking activities. The Federal Council's approach is strongly influenced by the experiences of the Credit Suisse crisis. However, it lacks a sufficiently nuanced analysis and does not adequately address the underlying causes of the problem. This is particularly the case with respect to the complex valuation issues. Rather than remedying this weakness through a targeted adjustment of the valuation methodology, the problematic valuation approach is left untouched and instead superseded by a full deduction of participations from CET1 capital. This implicitly assigns a value of zero to foreign participations. Admittedly, this approach resolves the issue, but it does so in an inefficient manner and with severe consequences for the affected bank.

It is also difficult for us to understand why the Federal Council considers the full deduction of participation values from CET1 to be the only viable alternative. Protection of the parent bank's creditors and customers in the event of resolution or in case of measures ordered by foreign authorities (e.g. ring-fencing) could also be achieved, at least in part, through additional loss-absorbing capital. Such an approach would be in line with international practice and consistent both with the group-level framework and with FINMA's preferred single-point-of-entry (SPE) resolution strategy.

Covering gone-concern risks with CET1 is also increasingly questioned internationally. In the United States, there are initiatives to require large banks to hold a minimum amount of long-term debt with bail-in features that explicitly may not be met with equity.⁹ A research paper by the Bank for International Settlements (BIS) also advocates this approach.¹⁰ The underlying rationale is to avoid an excessively large equity layer, thereby ensuring that resolution is initiated earlier and that sufficient bail-in-able debt remains available to absorb further losses during the resolution phase. A gone-concern layer consisting exclusively of equity carries the risk that resolution will be delayed for too long.

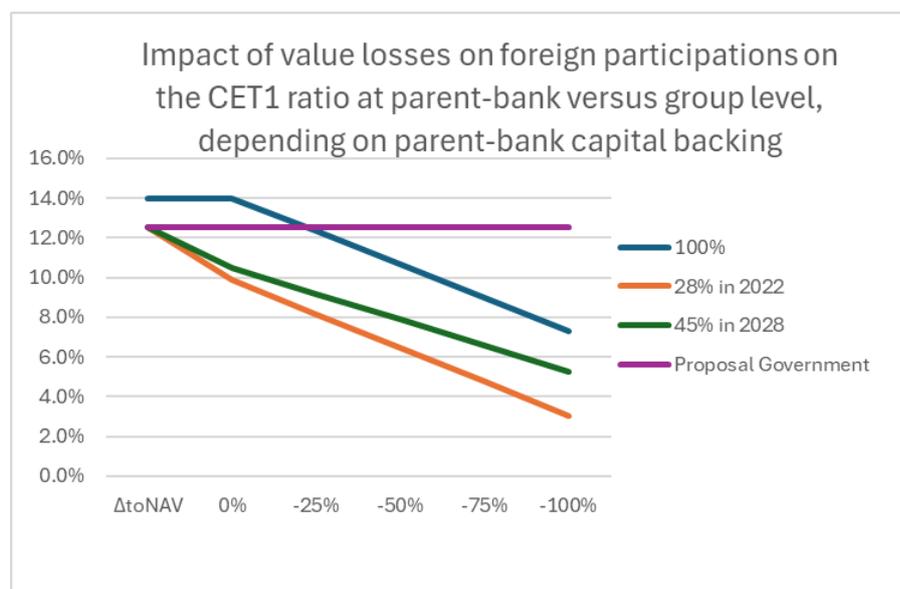
The consultation draft further argues that full backing of foreign participations with CET1 capital is necessary to avoid a leverage effect on parent-bank capital. This effect arises when participations are only partially backed with CET1 and is referred to by the authorities as "double leverage," although the term technically has a different meaning.¹¹

⁹ Federal Reserve, FDIC und OCC (2023): Proposed Rule – Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies, and Insured Depository Institutions

¹⁰ BIS Financial Stability Institute, FSI Briefs No 28, "Revisiting the regulatory capital stack"

¹¹ The term "double leverage" refers to the practice widespread among U.S. banks in the 1980s of raising debt at the holding level and passing it on to subsidiaries as equity capital. With the introduction of consolidated capital requirements, however, this practice was prevented through the introduction of the Basel framework. By contrast, the Swiss authorities refer to the partial intra-group debt financing of equity

Because risk-weighted participation values are only partially and proportionally covered by CET1 and AT1 capital, whereas losses initially solely affect CET1—with AT1 remaining unchanged—the CET1 ratio declines more sharply than the Tier 1 ratio. At Credit Suisse, the disproportionately large impact on the CET1 ratio was particularly pronounced because initially only 20 per cent CET1 was required to back foreign participations. However, this leverage effect could easily be reduced or eliminated through higher capital backing requirements combined with a more appropriate design of the relevant rules.



Source: Calculations Orbit36

Figure 3: Impact of losses on the CET1 ratio at parent-bank and group level

The figure illustrates the impact of value losses on foreign participations on the CET1 ratio of the parent bank and of the consolidated group, based on the capital backing and valuation of participations at the former Credit Suisse. In an initial phase, valuation losses occur in the form of write-downs to tangible net asset value. These are not relevant at group level but weigh on the CET1 ratio of the parent bank. The value loss scenarios shown (25, 50, 75 and 100 per cent of tangible net asset value) correspond to losses at subsidiary level that affect the capital of both the group and the parent bank. Due to the capital requirement being linked to the value of the participations, the CET1 ratio at parent-bank level tends to decline more slowly than at group level under these scenarios. Where participations were initially valued above tangible net asset value and backed by a low share of CET1 (28 per cent in 2022 and 45 per cent in 2028), the CET1 ratios at parent-bank level are because of an assumed impairment lower than at group level. By contrast, under full capital backing (as proposed by the Federal Council) value losses have no impact on the CET1 ratio of the parent bank under any scenario. The calculations are based on initial CET1 ratios of 14 per cent at group level and 12.5 per cent at parent-bank level.

5.2 Selected comments on the individual points of the consultation draft

capital in subsidiaries which—unlike the original double leverage—has no impact on the reported equity capital at the group level.

Remark: in this translation we limit the detailed comments to the most important aspect of the rejected alternatives; further details can be found at the end of the article.

The subsequent numbering relates to the paragraphs in the explanatory document.

1.4.1

The consultation draft mentions three reviewed alternative variants, each of which provides for full capital backing, but which were rejected—partly unjustifiably, in our view.

Corresponding deduction approach

Under this variant, the deduction would have been made in the same manner as the respective participation in the foreign subsidiary. This variant is conceptually sound and results in losses initially remaining capital-neutral as a consequence of the CET1 deduction.¹² Only after substantial losses would the AT1 or Tier 1 capital of the subsidiaries come into effect and, in the event of a write-down, affect CET1 at the parent company level. We generally consider this variant to be suitable. However, Tier 1 instruments have equity characteristics in certain jurisdictions and are therefore not equivalent to the AT1 debt instruments commonly used in Switzerland, which is why the authorities refrain from this approach.¹³

Proportional deduction approach

Under this approach, the full deduction from core capital is made proportionally to the respective percentage capital requirement. This variant has the advantage that the capital backing at the parent company level is structured similarly to that at the group level. However, because AT1 capital can only absorb losses at the parent company level after a conversion or write-down has occurred, there is initially a stronger decline in the CET1 ratio compared with the core capital ratio. This variant therefore requires a relatively high share of CET1.

Partial use of debt instruments for loss absorption (bail-in bonds)

Under this variant, the full participation deduction can be partially met with bail-in capital. In our view, this represents the most conceptually convincing solution. While losses from ordinary business operations would initially remain wholly or partially capital-neutral as a result of the proportional CET1 deduction, the risks in a resolution scenario would be covered by gone-concern capital explicitly intended for this purpose and less costly for the bank.¹⁴ We consider this variant—particularly in combination with a more conservative valuation of participations at tangible net asset value—to be well suited. By contrast, the arguments against this design are not convincing. In particular, the alleged lack of loss-absorption capacity does not appear persuasive to us, as with an

¹² Losses in subsidiaries do affect CET1 at the parent company level through impairments of participations; at the same time, however, the CET1 deduction is also reduced as a result of the lower participation value.

¹³ This includes, for example, the preferred shares commonly used in the United States.

¹⁴ Whether the effect is initially fully or only partially capital-neutral depends on the design of the deduction; see Section 6.5, Implementation variants.

appropriate design the CET1 deduction would take effect first, and the bail-in bonds only after substantial value losses that would, with high probability, be accompanied by a resolution of the group. Moreover, this variant would be consistent with a single-point-of-entry resolution strategy.

1.4.2

The consultation draft mentions three further reviewed alternative variants, each of which provides for partial capital backing, but which were rejected—also partly unjustifiably, in our view.

Partial participation deduction

Under this approach, the deduction from common equity tier 1 capital is applied only up to a certain percentage. With a backing ratio of, for example, 70 to 90 percent CET1—compared with 45 percent under the current rules—the effects of any value adjustments to participations would be limited to a magnitude that we consider acceptable. In particular, in combination with a valuation of participations at tangible net asset value, this variant would offer a good cost–benefit ratio and would also be easy to implement. It is therefore not clear to us why this variant was rejected.

Increase in the risk weighting of foreign participations

Under this variant, participations would continue to be risk-weighted as is currently the case. The risk weight of foreign participations would be set higher than the current 400 percent (as of 1 January 2028). If the risk weight were set slightly above 600 percent, the participations would have to be backed by around 100 percent core capital, and the variant would largely correspond to the proportional deduction approach. However, additional difficulties would arise, in particular due to any management buffers required by the bank, which could lead to backing in excess of 100 percent, or in the event of a reduction in the percentage capital requirement, which could result in backing below 100 percent. We share the concerns raised in the consultation draft regarding the use of high risk weights. In this case, the proportional deduction approach would be the simpler solution to implement to achieve a practically identical capital backing of the foreign participations.

Different capital requirements for wealth management and investment banking units

Under this implementation variant, subsidiaries predominantly engaged in wealth management with a low risk profile would be subject to lower capital backing requirements than subsidiaries predominantly engaged in investment banking with a higher risk profile. The consultation draft refers to possible problems in practical implementation, which we consider reasonable. However, there would be alternative design options (e.g. based on RWA density) that, in our view, were insufficiently examined.

1.4.3

According to the consultation draft, the regulatory anchoring of an alternative valuation method for participations in subsidiaries was also examined. In our view, this area exhibits a glaring weakness that contributed significantly to Credit Suisse being able to value its participations optimistically and thereby create around CHF 30 billion in additional capital at the parent company level. Only in this way was the bank able to cope with the gradual increase in capital backing requirements for foreign participations starting in 2019 and to avoid a capital shortfall at the parent company level.

Against this background, it is difficult for us to understand why the Swiss Federal Council sees no need for action in this area. This may be due to the fact that the complex and methodologically demanding valuation issue would become irrelevant if foreign participation values were fully deducted from common equity tier 1 capital—because the foreign participations would, as a precaution, be assigned a value of zero from the outset. While this would ostensibly resolve the problem, it would do so in a disproportionate manner, with serious implications for the affected banks.

By contrast, a switch to valuing participations at tangible net asset value would fundamentally resolve the valuation issue, create consistency between the group and the parent company, and limit potential value losses in a crisis to the losses actually incurred in the subsidiaries.

The reasons cited in the consultation draft for rejecting this alternative appear somewhat formalistic in parts and are overall unconvincing. This applies, first, to the concerns expressed in the consultation draft regarding excessive volatility of participation values—and thus of capital at the parent company level. From our perspective, it is economically sound and also meaningful for assessing the effective capital position of the parent company if profits or losses in subsidiaries—which ultimately accrue to or must be borne by the parent company—are reflected in the capital of the parent bank. These concerns are all the less comprehensible given that, in the case of Credit Suisse, considerable volatility in participation values was accepted, primarily due to impairment losses in the billions resulting from revised profit forecasts. Second, it is also questionable why the application of the accounting lower-of-cost-or-market principle—and the associated asymmetric treatment of positive and negative changes in net asset value—should be relevant for capital adequacy. While this approach is more conservative and ostensibly more stable in good times, the resulting accounting asymmetries lead to differing recognition of capital at the parent company and group levels, which can be confusing for customers, investors, and even regulators.

The same applies to the view expressed in the consultation draft that participations at the parent company level should be valued in such a way that no losses would arise in the event of a disposal.¹⁵ To ensure this, the book value would have to be adjusted in a crisis to a potentially lower market value. This is currently ensured by the lower-of-cost-or-market principle. However, this approach is procyclical and can exacerbate a crisis—particularly where no disposal is intended. Here too, the current valuation approach creates a difficult-to-justify inconsistency between the valuation of assets and liabilities

¹⁵ In practice, this is likely to be of limited relevance, as it is often not subsidiaries but individual assets and liabilities that are disposed of, as a so-called asset deal.

at the parent company and group levels. This can potentially result in divergent capital ratios that confuse the market and undermine confidence in the bank and in the regulatory framework. This is all the more so because valuation under the lower-of-cost-or-market principle at the parent company level is a peculiarity of Swiss accounting, which deviates from the Basel standard applied at the consolidated group level and is likely to be insufficiently understood internationally.¹⁶

Orbit36 considers a regulatory anchoring of the valuation approach for participations at the parent company level to be a central element of the consultation draft. We specifically recommend a consistent switch to valuation at tangible net asset value. As noted above, this ensures consistent valuation between the parent company and the group, precludes the generation of additional capital at the parent company level through the setting of input parameters, and at the same time limits the risk of value adjustments to the losses actually incurred in subsidiaries. Anchoring the valuation methodology would also reduce uncertainty regarding permissible valuation models and the scope for regulatory special rules.¹⁷

6. Alternative proposal

6.1. Rationale for alternative proposal

Orbit36 is of the view that Measure 15 of the Federal Council's report on banking stability could be implemented in a more appropriate manner than through the full deduction of foreign participation values from CET1 capital as foreseen in the consultation draft. Furthermore, Orbit36 considers that the objective of the measure is defined too narrowly, as its formulation effectively predetermines the full deduction of foreign participation values as the sole implementation option.

From Orbit36's perspective, the consultation draft should be aligned more closely with the overarching objective of the TBTF package of measures of 10 April 2024, namely to strengthen the resilience and stability of systemically important banks and of the Swiss financial centre and thereby further reduce risk to the economy and to taxpayers.

With regard to Action Area 2 (capital requirements), the Federal Council's report on banking stability provides that capital requirements for SIBs are to be selectively strengthened and more strictly enforced. The report also explicitly addresses the capital backing of foreign participations, noting that this "should be strengthened". At the same

¹⁶ See in this regard the rather critical statement by Autonomous Research in its report of 26 August 2025: "Effectively, this would make UBS hostage to the accounting opinion of its auditors on a rather obscure participation value in the Swiss GAAP solo accounts of the parent bank."

¹⁷ Through a regulatory filter, Credit Suisse was allowed to neutralise the capital impact that would have arisen in 2019 from a change in the valuation principles for participations under Swiss accounting rules. As shown in the PUK expert opinion by Zellweger-Gutknecht, Credit Suisse had previously been effectively permitted, by setting a threshold, to subject nine tenths of the participation values to a risk-weighting regime, even though the Capital Adequacy Ordinance would in fact have required a deduction regime.

time, it states that capital requirements should “continue to be aligned with international rules and international practice and should take competitiveness into account.”¹⁸ The Federal Council’s proposal, however, pursues an objective that goes well beyond this originally defined policy intent.

6.2. Revised objective and requirements

In Orbit36’s view, the objective of the consultation draft should be to ensure the stability and adequate capitalisation of the Swiss parent bank. This revised objective should take into account different scenarios and the regulatory capital components applicable to them, which serve distinct purposes and are aligned with the international regulatory framework.

In this context, a clear distinction should be made between capital requirements:

- under normal business operations (going concern);
- during the stabilisation phase following significant losses (recovery); and
- for the purpose of resolution (gone concern).

In addition to ensuring appropriate coverage of the respective risks, key lessons from the CS crisis should be taken into account, in particular to ensure that:

- the valuation of participations reflects the economic substance available in foreign subsidiaries, using valuation principles consistent with those applied at group level;
- restructurings or disposals of business units remain feasible even during the stabilisation phase;
- losses on foreign participations do not have a disproportionate impact on the capital of the parent bank as compared with capital at group level; and
- the rules are implemented consistently by the authorities and do not allow for special arrangements

6.3. Tiered capital requirements

As outlined above, the first step should be to ensure that the valuation of participations is consistent with that applied at group level, by consistently applying tangible net asset value for capital purposes and no longer relying on accounting-based valuation approaches. This should also be explicitly anchored in legislation. Otherwise, there is again a risk of institution-specific special arrangements.

To cover risks arising from ordinary banking activities, CET1 capital is required, as only this form of capital can absorb losses on an immediate basis. The required CET1 backing should therefore cover the expected loss potential of the respective foreign subsidiary,

¹⁸ See the report of the Swiss Federal Council on banking stability of 10 April 2024, p. 5.

as such a loss would directly affect the participation value and, consequently, CET1 at parent-bank level. For UBS Americas Holding, the most significant foreign subsidiary of UBS, the results of the U.S. CCAR stress test—which is widely regarded as particularly stringent—indicate an expected loss potential of around 35 per cent in a severe economic downturn.¹⁹ Assuming that the loss potential of other foreign subsidiaries is lower, backing participation values with 35 per cent CET1 would already be sufficient to cover risks arising in the course of ordinary business.

In the stabilisation phase, a bank requires sufficient strategic flexibility to realign its business on its own initiative (i.e. without supervisory intervention) and, where necessary, to dispose of business units or implement restructuring measures. Adequate capitalisation is critical in this phase. In principle, core capital (CET1 and AT1) is intended to serve this purpose. In practice, however, restructurings are often costly and require the immediate availability of CET1. As demonstrated by the Credit Suisse case, AT1 becomes available for restructuring purposes or for covering losses on disposals only upon conversion or write-down. At parent-bank level, the effective loss-absorbing capacity of internal AT1 instruments is further constrained by the fact that automatic conversion or write-down is triggered only if the CET1 ratio of the consolidated group falls below the 7 per cent threshold, at which point the group has already entered recovery. Moreover, as the CS crisis illustrated, the legal permissibility of an authority-ordered write-down or conversion of AT1 instruments is subject to significant legal uncertainty where the bank remains a going concern and is adequately capitalised at group level. Against this background, Orbit36 proposes that participation values be backed with CET1 also for risks arising in the stabilisation phase.

The situation differs, however, once the group becomes a gone concern and enters resolution. In this phase, material losses on participations may occur, and foreign authorities could prioritise the interests of creditors of foreign subsidiaries over those of creditors of the Swiss parent bank, for example through ring-fencing measures. While such a scenario is unlikely, it cannot be entirely ruled out. It is therefore appropriate, and consistent with international standards, to cover the remaining participation value not backed by core capital with additional loss-absorbing instruments, such as bail-in bonds.

6.4. Proposed Solution

Orbit36 therefore proposes that foreign participation values at parent-bank level be valued at tangible net asset value and, consistent with the current framework, be backed by capital of 60 per cent, yet entirely in the form of CET1. The remaining 40 per cent of the participation value would be covered by additional loss-absorbing instruments.

¹⁹ Based on the 2025 Federal Reserve stress test results, Table A.20, UBS Americas Holding LLC, p. 49. A 35 percent decline in CET1, derived from a reduction in the CET1 capital ratio from 20.3 percent to 15.3 percent.

This approach would materially strengthen capitalisation at parent-bank level. The share of CET1 used to back foreign participations would increase from 45 per cent to 60 per cent. In addition, the shift to valuation at tangible net asset value would result in a one-off reduction in parent-bank capital, which would effectively correspond to additional CET1 backing, bringing the CET1 coverage of foreign participations to around 70 per cent.²⁰ The leverage effect resulting from partial intragroup debt financing would thereby be limited to an acceptable level. By backing the remaining participation value with bail-in capital (TLAC), customers and creditors of the Swiss parent bank would be fully protected even in the event of the resolution of the entire group.

Our alternative proposal differs from the consultation draft primarily with respect to the capital instruments used to back foreign participation values. While participation values would likewise be backed by 100 per cent capital, Orbit36 considers it neither necessary nor efficient to fully cover the risk of unlikely extreme losses on foreign participations with CET1. In Orbit36's view, it is sufficient to cover the residual risk of a total loss on foreign participations (which would remain unlikely even in resolution) with bail-in bonds, in line with international practice.

Our proposal continues to allow partial intragroup debt financing of capital, which is indispensable for maintaining a centralised treasury and risk management framework within the group. The associated risks are considered manageable.

As shown in Figure 4, valuing foreign participations at tangible net asset value and backing them with 60 per cent CET1 would result in losses incurred by foreign subsidiaries having a significantly smaller impact on the CET1 ratio of the Swiss parent bank than at group level. The disproportionate decline in the CET1 ratio observed in the case of Credit Suisse would therefore no longer be expected. In the case of Credit Suisse, this outcome was possible only because at the beginning of the transition period foreign participations were required to be backed by 20 per cent of CET1, while at the same time participations could be recognised at levels significantly above tangible net asset value due to the inclusion of expected future profits. These inflated valuations had to be corrected in subsequent years.

²⁰ Basierend auf einem Vergleich des Beteiligungswertes der UBS Americas Holding von 31.8 Mia. USD mit dem Tier-1-Kapital von 18.9 Mia. USD per Ende 2024.

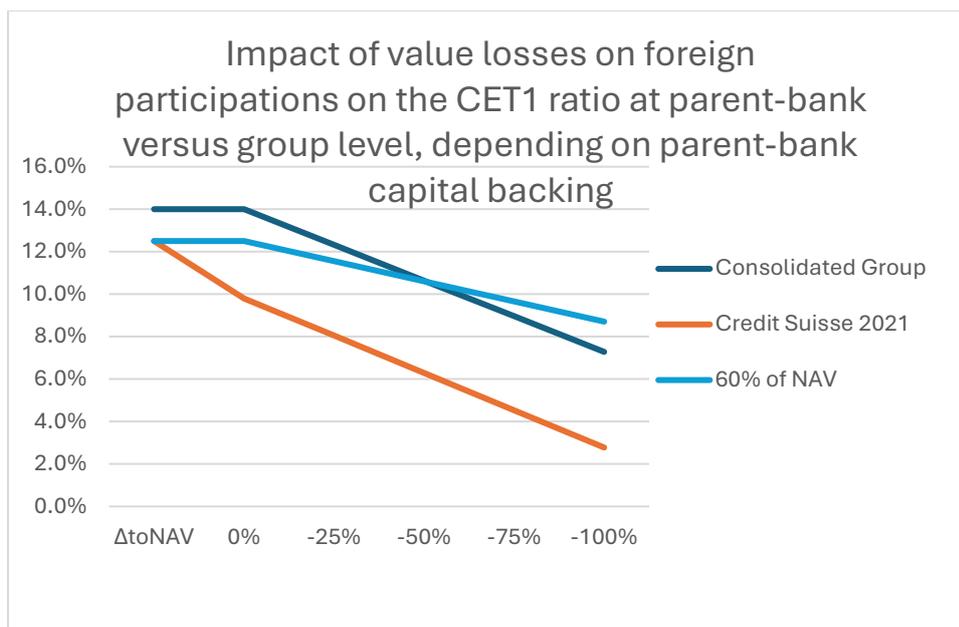


Figure 4: Comparison of loss impacts on the CET1 ratio at parent-bank and group

The figure illustrates the impact of value losses on foreign participations on the CET1 ratio of the parent bank and of the consolidated group. It is based on two different starting situations (Credit Suisse in 2021 and the proposed capital backing of foreign participations with 60 per cent CET1 at parent-bank level). Because Credit Suisse valued its participations significantly above tangible net asset value, valuation losses arise in an initial phase in the form of write-downs to tangible net asset value. These are not relevant at group level but weigh on the CET1 ratio of the parent bank. The value loss scenarios of 25, 50, 75 and 100 per cent of tangible net asset value refer to potential losses in foreign subsidiaries that affect the capital of both the group and the parent bank. Under the capital backing of foreign participations applicable in 2021, with 26 per cent CET1, these scenarios lead to a rapid deterioration of the CET1 ratio at parent-bank level, including in comparison with the group. By contrast, under the capital backing of foreign participations proposed by Orbit36, with 60 per cent CET1 and valuation at tangible net asset value, the CET1 ratio at parent-bank level declines less sharply than at group level. In scenarios involving large value losses, the CET1 ratio at parent-bank level is even higher than at group level. Under such scenarios, the group would, with high likelihood, also be in recovery or resolution. The calculations are based on initial CET1 ratios of 14 per cent at group level and 12.5 per cent at parent-bank level.

6.5. Implementation options

Our proposal could be implemented in two different ways:

a) Proportional deduction

Foreign participations are deducted proportionally, with 60 per cent of the participation value deducted from the parent bank's CET1 and the remaining 40 per cent deducted from the parent bank's eligible TLAC.

This approach is simple and transparent. In the event of losses on foreign participations, CET1 would be reduced, while the corresponding regulatory requirement would decline at the same time. As the requirement consists of CET1 and TLAC, whereas losses affect CET1 only, the CET1 ratio at parent-bank level would decline. However, due to the 60 per

cent CET1 backing and the conservative valuation of participations at tangible net asset value, this decline would be significantly smaller than under the current framework and would remain below the corresponding decline in the group-level CET1 ratio.

Growth in foreign subsidiaries would need to be backed only partially with CET1. This would largely offset the capital inefficiency for a centralised treasury and risk management framework arising from the regulatory preference to conduct foreign business through legally independent subsidiaries. The intragroup transactions associated therewith trigger an additional capital requirement within the Group.

b) CET1 deduction with recognition of loss-absorbing instruments

In principle, the value of foreign participations would be fully deducted from the parent bank's CET1. However, a systemically important bank could recognise additional loss-absorbing instruments (TLAC) amounting to up to 40 per cent of the current value of the foreign participations (as measured based on the tangible net asset value) against this deduction.

This approach is more complex and effectively anchors the reference amount for the capital deduction. Losses on foreign participations would initially be CET1-neutral, as the reduction in parent-bank CET1 would be offset by a corresponding reduction in the CET1 deduction. Eligible parent-bank CET1 and the recognised amount of TLAC would therefore remain unchanged. Only once the CET1 deduction is fully exhausted—which would occur after a substantial loss of around 60 per cent of the foreign participation value, corresponding to losses of approximately USD 30 billion in foreign subsidiaries—would gone-concern capital be drawn upon. This would necessarily require the resolution of the parent bank. In such a scenario, the group would, with high likelihood, also be in gone-concern situation, rendering this mechanism appropriate. Through bail-in, the parent bank would generate the capital required to fully absorb losses on foreign participations. Customers and creditors of the Swiss parent bank, as well as taxpayers, would likewise remain fully protected under this approach, consistent with option a).

Growth in foreign subsidiaries would need to be fully backed with CET1. This would result in capital inefficiencies, as foreign business must often be conducted through subsidiaries for regulatory reasons, while a centralised treasury and risk management framework simultaneously gives rise to additional capital requirements for the intragroup transactions associated therewith. Overall, this would create incentives to conduct business, where permissible, directly through foreign branches of the parent bank. At the same time, it would create pressure to upstream profits from foreign subsidiaries to the parent bank.

Detailed comments on the consultation draft

Note: the numbering below refers to the consultation draft

1.2 Relevance of the capital backing of foreign participations

1.2.3

The draft suggests that capital held at parent-bank level in excess of the regulatory minimum requirements is intended to cover the parent bank's own operating business and that any value losses on foreign participations must not draw on this capital. This view, however, contradicts the fundamental functioning of capital adequacy requirements. These requirements specify, for each risk, a defined amount of capital that must be held to cover that risk. This applies both to risks arising from the parent bank's own operating activities and to participations in subsidiaries. Capital held in excess of regulatory requirements serves no predefined purpose and may be freely deployed by the bank—for example for growth, distributions, or as an additional voluntary buffer to cover risks domestically or abroad.

By proposing a full deduction of foreign participation values, the Federal Council seeks to shield the parent bank's capital ratio—including voluntarily held capital buffers of systemically important banks—from any value losses on foreign participations. This goes far beyond the stated objective of ensuring adequate capitalisation at parent-bank level that would, if necessary, enable an orderly resolution of this Swiss-domiciled group entity.

In addition, the authorities appear to be strongly influenced by the experience of the Credit Suisse crisis, while overlooking the fact that the substantial value losses on foreign participations at Credit Suisse AG occurred primarily because the initial valuation was based on profit forecasts that subsequently proved to be overly optimistic. It is therefore difficult to understand why the Federal Council refrains from adjusting the valuation methodology to tangible net asset value.

1.2.4

The consultation draft recognizes that the capital backing of intragroup exposures at single-entity level contributes to the group being required to hold more capital than mandated by consolidated group requirements. For this reason, it is common market practice to fund the capital required for such transactions—necessary for a centralised treasury and risk management framework—within the group through group internal debt financing.

The Federal Council's proposal to fully deduct foreign participations from parent-bank capital would result in a Swiss-domiciled global systemically important bank also having to hold capital for such intragroup exposures at group level. This would represent a

significant competitive disadvantage compared with peers in jurisdictions that either do not impose capital requirements at single-entity parent-bank level, such as the United States, or provide generous exemptions, such as the European Union or the United Kingdom.

1.2.5

In this subsection, the consultation draft again argues that, under the current partial capital backing of foreign participations, capital at parent-bank level that is intended to cover risks arising from the parent bank's own operating business could be utilized to absorb valuation losses on participations. In that case, the parent-bank capital would simultaneously have to cover both the risks of the parent bank's own activities and those of its subsidiaries. This argument fails to acknowledge that risks arising from the parent bank's operating business must already be covered by the capital required under existing regulatory rules. It is therefore not possible to satisfy both requirements with the same capital.

It is correct only that capital voluntarily held in excess of regulatory requirements may be deployed flexibly, depending on need. We do not share the view expressed in the consultation draft that capital buffers built up at parent-bank level are intended solely to cover the parent bank's own operating business.

The assertion that debt financing of participations at parent-bank level results in double use of debt financing within the overall group structure also warrants scrutiny. While this may be the case from an intragroup perspective, it has no impact on the group's overall funding structure.

With regard to the potential regulatory disincentives associated with partial capital backing of participations, it should also be noted that the execution of business through foreign subsidiaries rather than through branches of the parent bank is generally driven by requirements imposed by foreign authorities. Conducting business through legally independent subsidiaries often necessitates additional intragroup transactions—particularly to implement a centralised treasury and risk management model—which in turn generate intragroup capital requirements. To ensure balanced incentives, a moderate degree of intragroup debt financing of subsidiary capital must therefore remain permissible.²¹ By contrast, the proposed full backing with Common Equity Tier 1 capital would create incentives to conduct foreign business—where permissible—directly through branches of the Swiss parent bank.

²¹ This applies in particular if incentives are to be structured in such a way that, for an asset booked in a foreign subsidiary, the same amount of capital is required overall—i.e. including the necessary intra-group financing and hedging transactions—as would be required if the same asset were booked directly at the parent company.

For further discussion of the alleged double counting of capital at group level, we refer to our blog post of 1 October 2025.

1.2.6

The consultation draft notes that the value of foreign participations at Credit Suisse's parent bank declined by around 60 per cent between the third quarter of 2021 and the third quarter of 2022, thereby significantly weakening the parent bank's capital position. The valuation estimates used in the bank's models to determine participation values had to be revised to reflect the changed circumstances and the effects of planned restructurings. This illustrates the fragility of participation values based on discounted cash-flow models, which already react to changes in future profit expectations and are therefore unsuitable for capital adequacy purposes.

The draft unfortunately fails to address this fundamental weakness by shifting to a valuation based on tangible net asset value, which would limit recognition to the economic substance available in subsidiaries and ensure consistency with the approach applied at group level.

Had Credit Suisse's foreign participations been valued at tangible net asset value, the need for write-downs would have been significantly lower, and the difficulties mentioned in the draft in connection with the intended disposal of business units—caused by divergent valuations at parent-bank and group level—would not have arisen. This is because, under a net-asset-value approach, disposals of business units would be expected to have broadly identical capital effects at parent-bank and group level. In the case of the disposal of the securitised products business, a gain would likely also have arisen at parent-bank level.²²

By contrast, the proposed full backing of foreign participations with CET1 creates a new inconsistency. While disposals of business units would have no capital impact at parent-bank level—because participations would already have been assigned a value of zero in advance—the capital impact at group level would continue to depend on the price realized in a disposal. If a disposal were to occur below the carrying value of the corresponding assets on the consolidated balance sheet, a capital-relevant loss would arise, directly affecting the group's capital ratios. This underscores the importance of applying consistent valuation approaches to identical transactions where capital requirements apply in parallel at multiple levels, and of backing them with capital in a consistent manner wherever possible.

With regard to the statement in the draft that Credit Suisse would have had to hold significantly more capital at an earlier stage if foreign subsidiaries had been fully deducted from CET1, it should be noted that this would equally have been the case if the

²² This is based on the statement in the PIC report that a profit would have arisen at the group level

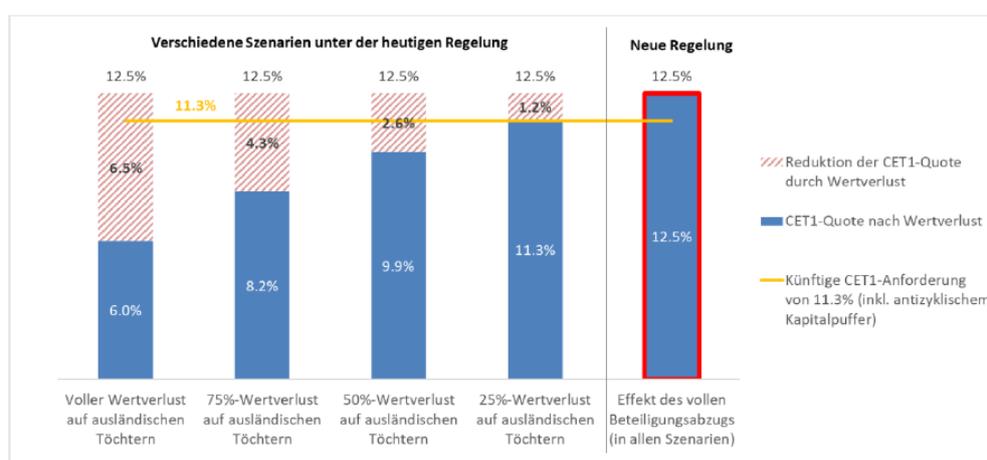
regulatory filter—applied exclusively by Credit Suisse—had not been granted and if the ten-year transition period under the current rules had been shorter

1.3 Objectives of the proposed measure

1.3.1

The consultation draft consequently also focuses on relevance in further crisis scenarios that could have an impact on capital at the parent company level. However, we consider the value loss scenarios shown in Figure 7 of the consultation draft (page 17) to be unrealistic. Without prior massive overvaluation of participation values—as occurred at Credit Suisse—losses on the order of 50 percent, 75 percent, or even 100 percent represent extreme assumptions.

Abbildung 7: Auswirkungen verschiedener Wertverlustszenarien auf ausländischen Tochtergesellschaften auf die CET1-Quote des Schweizer Stammhauses der UBS³²



Quelle: Berechnungen EFD, basierend auf UBS Offenlegungsbericht 4. Quartal 2024, S. 109.

Source: *Explanatory report to the consultation draft of 26 September 2025*

Based on a valuation of participation values at tangible net asset value—as preferred by us—losses of 25 percent already reflect a severe crisis scenario, associated with losses in foreign subsidiaries of around USD 12.5 billion. As is evident from the figure of the Swiss Federal Department of Finance (FDF), in such a scenario and under the rules currently in force—i.e. with foreign participations backed by 45 percent CET1—the CET1 ratio at the parent company of UBS would decline from 12.5 percent to 11.3 percent, a decrease of 1.2 percentage points. The parent company would therefore remain well capitalised. At the same time, however, losses of this magnitude at the group level would be expected to lead to a decline in the CET1 ratio of 2.5 percentage points, from around 14 percent to 11.5 percent.²³

²³ Based on the assumption of risk-weighted assets at the group level of USD 500 billion.

It is not clear to us why the consultation draft aims to require the parent company to hold so much CET1 that even under such extreme scenarios the CET1 ratio would remain stable at around 12.5 percent, while at the group level a breach of capital requirements or even a transition into gone concern would already occur.

From our perspective, it would be more appropriate to back foreign participations at the parent company level with sufficient CET1 to cover the maximum losses expected on the basis of stress tests. Risks that could potentially affect the entire participation value are limited to gone-concern scenarios, such as ring-fencing of foreign subsidiaries. It would therefore be sufficient to cover the remaining participation value with bail-in capital. In this way as well, customers and creditors of the Swiss parent company—as intended by the consultation draft—could be protected against losses. For these key stakeholders of the bank, it is not relevant in which form the capital buffer held for their protection is provided.

For more detailed information regarding the possible use of bail-in bonds and reliance on stress tests, we refer to our blog article of 18 September 2025 published by Orbit36.

<https://www.orbit36.com/denkanstosse-fur-eine-tragfahige-bankenregulierung-in-der-schweiz/>

1.3.2.

The consultation draft defines the objective of the proposed measure as ensuring that capital held at parent-bank level is not consumed by losses on foreign participations and remains available to cover risks arising from the parent bank's own operating business. In our view, this objective is formulated too narrowly and effectively predetermines the full deduction of foreign participations as the only possible implementation option.

From a regulatory perspective, the relevant objective should be broader and aligned with the overarching aim of the TBTF package adopted on 10 April 2024, namely to strengthen the resilience and stability of systemically important banks and of the Swiss financial centre and thereby further reduce risks to the economy and to taxpayers. Against this background, the question is not whether losses on foreign participations should be fully excluded from parent-bank capital under all circumstances, but rather how risks arising from foreign participations can be appropriately covered across different phases of a bank's lifecycle.

Capital requirements serve different purposes depending on whether a bank is operating under normal conditions, is in a stabilisation phase, or has entered resolution. A differentiated approach to capital backing should therefore reflect these distinct scenarios and the specific role played by different capital instruments in each phase, in line with the international regulatory framework.

A narrowly defined objective focused exclusively on shielding parent-bank capital ratios from any impact of foreign participations risks overlooking these distinctions and may lead to outcomes that are neither proportionate nor economically efficient.

2.1 International standards

The consultation draft refers to the Basel minimum standards and correctly notes that they apply only at the consolidated group level and at each consolidated sub-group level. There are no requirements regarding the capital backing of participations in foreign subsidiaries held by the parent companies of international banking groups. With regard to capitalisation at the standalone entity level of banking groups, Basel III merely requires supervisory authorities to ensure adequate capitalisation.

The consultation draft further states that approaches for treatment at the single-entity level could be derived from the general Basel minimum standards on the treatment of non-consolidated participations. In principle, participations held in financial institutions (in the form of CET1, AT1 or bail-in capital) are to be deducted from the corresponding capital component of the parent company. It is also noted that the Financial Stability Board provides for a deduction for internal TLAC instruments. This is followed by the conclusion: “Nevertheless, by analogy, a capital deduction for participations in subsidiaries can be derived from both regulatory recommendations.”

We acknowledge the conclusion that participations in foreign subsidiaries held at the parent company level (in the form of CET1 or AT1) should in principle be treated equivalently, i.e. backed to the same extent and in the same capital category. This would in fact suggest a deduction from core capital—as provided for under the rejected “corresponding deduction approach”—but not a full deduction from CET1. At the same time, in our view it should also be taken into account which specific risk is intended to be covered by a deduction and under which scenarios it could materialise. Where substantively justified, asymmetric coverage using different capital categories may also be appropriate.

2.2 Comparison jurisdictions

The consultation draft draws a comparison with the three jurisdictions of the USA, the EU and the UK. This comparison is, however, difficult, as Switzerland represents a special case in terms of the structure and importance of foreign markets. Most U.S. or UK G-SIBs do not have comparable parent companies that both operate as operational entities and hold participations in foreign subsidiaries.

We share the view expressed in the consultation draft that capital requirements at the single-entity level are of subordinate importance for U.S. G-SIBs. We would add, however, that due to the application of so-called sub-consolidation, U.S. G-SIBs are not subject to material restrictions as to the entities in which they effectively hold their capital. They

therefore have significantly greater flexibility in intra-group capital management than G-SIBs domiciled in Switzerland.

The consultation draft notes that UK banks are subject to requirements at the solo-entity level and that material participations must be fully deducted from capital, although the competent authorities may grant relief. We would add that the PRA Rulebook provides for separate deductions from CET1, AT1 and Tier 2.²⁴ Accordingly, participations are not fully deducted from CET1; instead, the corresponding deduction approach is effectively applied—the very variant that was rejected in the consultation draft.

The consultation draft further notes that certain EU G-SIBs have parent companies with their own operating business that are comparable to Swiss G-SIBs. In general, capital requirements apply at both the group and the solo-entity level, although exceptions are possible. It is also stated that, for institutions subject to supervision on a consolidated basis, no deduction is generally required, although authorities may order deductions for specific purposes—particularly to achieve structural separation of banking activities or in the context of resolution planning. Where no deduction is applied, participations are treated as exposures with a risk weight of at least 100 percent. This would imply that, for European G-SIBs, participations in some cases need to be backed by only around 15 percent capital. In addition, the Capital Requirements Regulation (CRR) also provides for separate deductions from CET1, AT1 and Tier 2.²⁵

Overall, we find that the proposed rules for Switzerland are significantly more stringent than international practice. Even though direct comparisons are difficult, it is striking that none of the three jurisdictions applies a full deduction of participations from CET1. Instead, deductions are differentiated by the capital category of the participations—CET1, AT1 or Tier 2—and are supplemented by exceptions (EU, UK), or the jurisdictions dispense entirely with solo-entity-level requirements (USA).

3.1 The proposed new regulation

The consultation draft recognises that the capitalisation of the Swiss parent company was a weakness during the Credit Suisse crisis. It therefore aims to specifically increase the capital requirements for participations in foreign subsidiaries held by the parent companies of systemically important banks. We share the assessment that action is required in this area and that sufficient resources must be available at the Swiss parent company level, particularly during the stabilisation phase.

However, by setting the objective that valuation losses on foreign participations must not have any direct impact on the capital position of the Swiss parent company, the consultation draft goes too far. In effect, this amounts to immunising the parent

²⁴ PRA-Rulebook, available on <https://www.prarulebook.co.uk/prarules/own-funds-and-eligible-liabilities-crr/01-01-2026#6518f952dc7a42ae895040ff5c53252f>

²⁵ CRR Articles 36, 56, 66

company's CET1 ratio against any losses in foreign subsidiaries. Measure 15 of the report of the Swiss Federal Council on banking stability also proposes increasing the capital backing of foreign participations to strengthen the parent company, but leaves room for different implementation variants and explicitly describes full backing of participation values as the strictest and most far-reaching option. It also mentions alternatives—such as increasing the risk weights of participations—that would allow an equivalent or at least partial strengthening of the parent company's capitalisation.²⁶ These alternatives, however, were not pursued further in the consultation draft.

We therefore do not agree with the proposed introduction of the new item 1a in Article 9 paragraph 2 letter a of the Banking Act. The core principles set out therein—first, that participations in foreign subsidiaries must be fully backed by capital, and second, that this capital must be of CET1 quality—constitute an excessive measure by international comparison. In our view, the objective should be to ensure sufficient capital at the parent company level for ordinary business operations, as well as the necessary capital resources for a potential recovery or resolution. The latter is effected at the group level via the single-point-of-entry resolution strategy and does not require full backing exclusively with CET1. Implementation can also be achieved using so-called additional loss-absorbing instruments (bail-in bonds) pursuant to Chapter 4 of the Capital Adequacy Ordinance.

The justifications set out on pages 30 and 31 of the consultation draft are not always convincing:

“The new regulation thus ensures that corrections to the book values of foreign subsidiaries—for example due to uncertain future prospects, strategic realignments or restructurings in the ordinary course of business—do not affect the regulatory capital position of the Swiss parent company. As a result, all eligible regulatory capital of the parent company remains fully available after the value correction to cover risks arising from its own operational business.”

This rule immunises the parent company's capital against any losses on participations in foreign subsidiaries. It goes even further than full insurance coverage. Put somewhat more vividly: even an insurance policy with no deductible at all would not be considered sufficient for a house; rather, the owner would additionally be required to hold the full replacement value of the house to be able to rebuild it entirely in the event of a total loss.

“The new regulation also protects the regulatory capital of the parent company against risks in valuation models. Such valuations are subject to uncertainty due to their complexity and the numerous underlying assumptions.”

²⁶ A strengthening of capital at the parent company level was already decided in 2018, but was subsequently significantly diluted in consideration of the capital situation of Credit Suisse AG, through the long transitional period for increasing risk weights until 2028 and the granting of the regulatory filter.

For this reason, it is important to anchor the valuation method in regulation and to switch to tangible net asset value. This value is objectively determinable, consistent with the approach at the group level, and not subject to model assumptions. Uncertainty can thus be materially reduced.

“At the same time, the new regulation also prevents the parent company from using debt to finance participations in foreign subsidiaries (double leverage). In future, the parent company must fully refinance intra-group equity with CET1 capital.”

Based on the experience from the Credit Suisse crisis, it is in principle understandable that limits should be placed on internal debt financing. Leverage at Credit Suisse was very high. In 2019, for example, it was still possible to back foreign participations at the parent company level with only 20 percent CET1 and to recognise capital that largely consisted of book gains or remained eligible only due to regulatory filters. It is, however, excessive to now effectively prohibit any intra-group debt financing. A more appropriate approach would be to set the maximum permissible leverage in such a way that the capital ratio at the parent company level cannot decline faster than at the consolidated group level. For this purpose, the current backing of foreign participations with 60 percent would already be sufficient, provided that this backing is held entirely in the form of CET1 and that participation values are consistently assessed on a net asset value basis.

“The new regulation may lead to certain business lines within the group being reallocated and internal interdependencies being reduced.”

It is important to understand that these internal interdependencies arise precisely because regulators have increasingly pushed since the financial crisis for business to be conducted via subsidiaries rather than directly through branches of the parent bank.²⁷ A reduction of such interdependencies is therefore only possible to a limited extent. Nevertheless, to operate a central treasury and risk management function and to manage the group in an integrated manner—which is also regulatorily desired and sensible—certain intra-group transactions are necessary. If these transactions must now, as required by the consultation draft, be fully backed by capital at the parent company level, capital requirements at the group level will increase. Internationally active banks, however, depend on a moderate degree of leverage within the group to address the cross-border differences in the treatment of transactions, which are eliminated at the group level thanks to consolidated supervision. As noted above, intra-group debt financing has no direct impact on the funding structure at the consolidated group level.

²⁷ Coordination between regulators takes place through “supervisory colleges” established specifically for this purpose, as well as under the single-point-of-entry approach as the preferred resolution strategy.

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