

Deal Close on New Rules for Swiss Banks - Source

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ZURICH - Talks on tougher capital rules for Switzerland's top banks UBS (UBSN.VX) and Credit Suisse (CSN.VX) to prevent future crises are in a final stage and a compromise deal is near, people familiar with the situation said.

Swiss regulators have vowed to bring in stronger capital and liquidity buffers for the two banking giants after UBS was nearly brought to its knees by the ongoing credit turmoil and had to tap investors twice for \$29 billion of extra cash this year.

Regulators say new rules are needed to shield Switzerland from systemic risks as the banking sector accounts for 10 percent of gross domestic product and as liabilities at the two big banks are more than seven times the country's GDP.

Credit Suisse chairman Walter Kielholz said in July stricter rules might endanger the competitiveness of Switzerland's two bank titans and turn them into takeover candidates.

But Swiss National Bank Vice-Chairman Philipp Hildebrand said last week the deepening of the crisis since Lehman Brothers' collapse underlined the need for better safeguards.

The new requirements will see higher bank capital ratios -- the sums regulatory lenders must put aside against risk -- as well as the introduction of a leverage ratio, a limit on leverage expressed as a percentage of capital against total assets, people familiar with the talks said.

Banks will have "at least three years" to adapt to the new system, a source close to the discussions said.

"I would hope we would get there relatively soon," said the source. "But implementation will (be) longer term ... There will not be any immediate impact on the balance sheet."

The Swiss Federal Banking Committee (EBK), the banking watchdog drafting the rules, has said a deal will emerge towards the end of the year. But a second source close to the talks said a compromise might be struck by the end of October.

Hans Kaufmann, a member of the Swiss parliament's economic committee, said the EBK has proposed introducing a leverage ratio of 4 percent, and twice as high a level of capital to risk-weighted assets as is required under Basel II rules.

Under international Basel II rules on regulatory capital, banks have to put aside at least 8 percent of their risk-weighted assets, a measure known as the Tier 1 ratio. In Switzerland, banks are already required to have a Tier 1 ratio of about 10 percent.

TOWARDS A COMPROMISE

Any compromise might involve the exclusion of some assets categories in the calculation of the leverage ratio.

"There is a major discussion revolving around the leverage ratio and related issues. For instance, do we use all the assets or will we have exceptions?" Kaufmann said.

The leverage or capital-to-assets ratio of Swiss banks fell to 2.5 percent in 2007, SNB data showed.

A less stringent upgrade of the capital requirements than that proposed by the EBK might also be on the cards.

"As far as I can see, after this week, there is no doubt that new capital requirements will be introduced," said Beat Bernet, St. Gallen university economics professor. "What is being discussed is a (Tier 1) ratio of 11-12 percent."

UBS boosted its Tier 1 ratio to 11.6 percent at the end of June against an average of 8 percent for top European banks. Credit Suisse, which came into the crisis with a good capital buffer thanks to the sale of insurer Winthertur for 12.3 billion Swiss francs, had a Tier 1 ratio of 10.2 percent at end June.

Regulators will also need to take into account the fact that the two banks report under different sets of accounting rules to avoid favouring one over the other. UBS uses International Financial Reporting Standards. Credit Suisse reports under U.S. General Accepted Accounting Principles.

A weakened UBS is in no position to effectively resist the new rules. Credit Suisse, which fared better in the crisis than its direct rival, had initially dug in its heels but has recently come to terms with the fact that tougher rules will be needed, said the first source.

Source: Reuters