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Opinion **Lex**

SNB/Credit Suisse: Swiss central bank hints at higher capital requirements

Report suggests Finma could have done more, earlier



Credit Suisse's low price-to-book ratio and poor return on assets indicated imminent threats to the bank © Denis Balibouse/Reuters

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Films directed by Sam Peckinpah and his disciples featured slow-motion violence. A report by the Swiss National Bank alludes to a similar effect prior to Credit Suisse's catastrophic collapse. There was plenty of time to see what market forces would do to the vulnerable Swiss wealth manager. One clear lesson from the SNB report: current capital buffers [are inadequate](#).

The SNB does not regulate Swiss banks. Finma does. This report suggests the watchdog could have done more, earlier. Credit Suisse's low price-to-book ratio and poor return on assets clearly indicated imminent threats to the bank.

This puts investors in a quandary. Common equity tier one ratios well above regulatory minimums — Credit Suisse had a reasonably high 14 per cent at end March — mean little when confidence evaporates. The credibility of capital and liquidity measures depends on highly prudent asset valuations.

Credit Suisse had a serious market credibility problem, after years of mismanagement. Its “difficult-to-assess” assets, as the SNB put it, threatened more losses eroding its capital base further. No one, at Credit Suisse nor Finma, took tough enough decisions early enough. In 2021, Credit Suisse ranked in the top 25 of global systemically important banks, one of two in Switzerland.

The SNB ominously writes that the current definition for CET1 has some “vulnerabilities”. No kidding. Notably, Swiss rules allow a reweighting of risk assets when a bank puts through provisions on foreign assets, rather than capital deductions. Another SNB suggestion: banks should prepare a minimum amount of assets to pledge to the central bank.

Credit Suisse’s slow car crash will be further examined in postmortems by Finma itself and the government. Even so, SNB’s first thoughts suggest that Swiss banks including UBS face greater scrutiny and capital requirements. That cannot help their future profitability, nor investor attitudes towards banks.

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