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JOB CUTS AT UBS

After UBS AG announced it was eliminating up to 10,000 jobs by 2015, in October 2012, the Zurich-based bank's chairman Axel Weber warned that many of its global rivals are doing the same, according to the Christian Science Monitor.

The Swiss bank is downsizing its investment banking and cutting risky trading activities to put scandals behind. UBS job eliminations are part of a strategy to improve profits. UBS is reducing its headcount from its current 64,000 employees with 7,500 layoffs.

The company's third-quarter net loss of 2.17 billion Swiss francs ($2.31 billion) was mostly because of its investment banking unit. In investment banking, new requirements on increasing capital reserves reduce the amount of funds left for investing.

Capital rules may cause other banks to follow UBS in letting off workers to save money. Basel III rules will be phased in next year. The rules will take full effect in 2019. The requirements were developed by a committee of the Bank for International Settlements, based in Basel, Switzerland. The Bank for International Settlements is an institution that coordinates policy and provides banking for the world's central banks.

The Basel Committee on Banking Supervision's requirements mandate for big banks that people count on to hold between 1 and 2.5 percent more capital than they currently hold. The capital also needs to be of better quality. By 2019, the banks need to have a capital cushion equivalent to 7 per cent of risk-weighted assets.

On October 21, 2009 Federal Reserve Governor Daniel K. Tarullo spoke before the Exchequer Club in Washington about the financial crisis and need to address the "too big to fail" concern. "Too big to fail" relates to a large financial institution facing failure (whether illiquidity or insolvency) and government authorities intervening to fund or guarantee, to prevent more banks failing or a ruin of the entire financial system.

The aim of the rules is to prevent another global financial system like the one in 2008, when big name institutions such as Lehman Brothers filed bankruptcy, and to protect taxpayers from having to rescue.

Government intervention may protect a bank from operation risks, but may lead to negative effects on the economy, including inefficient capital allocation, and a competitive advantage for larger financial institutions.

By 2019, Swiss banks will have to set aside capital that includes at least 10 percent common equity. Regulations allow up to 9 percent to be contingent convertible bonds.