

A LONG WAY DOWN CREDIT SUISSE



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Credit Suisse – A long way down (Share price development 1997-2023)



<https://www.google.com/finance/quote/>

30.05.2023

Prof. Dr. Rolf Sethe: Credit Suisse – A long way down

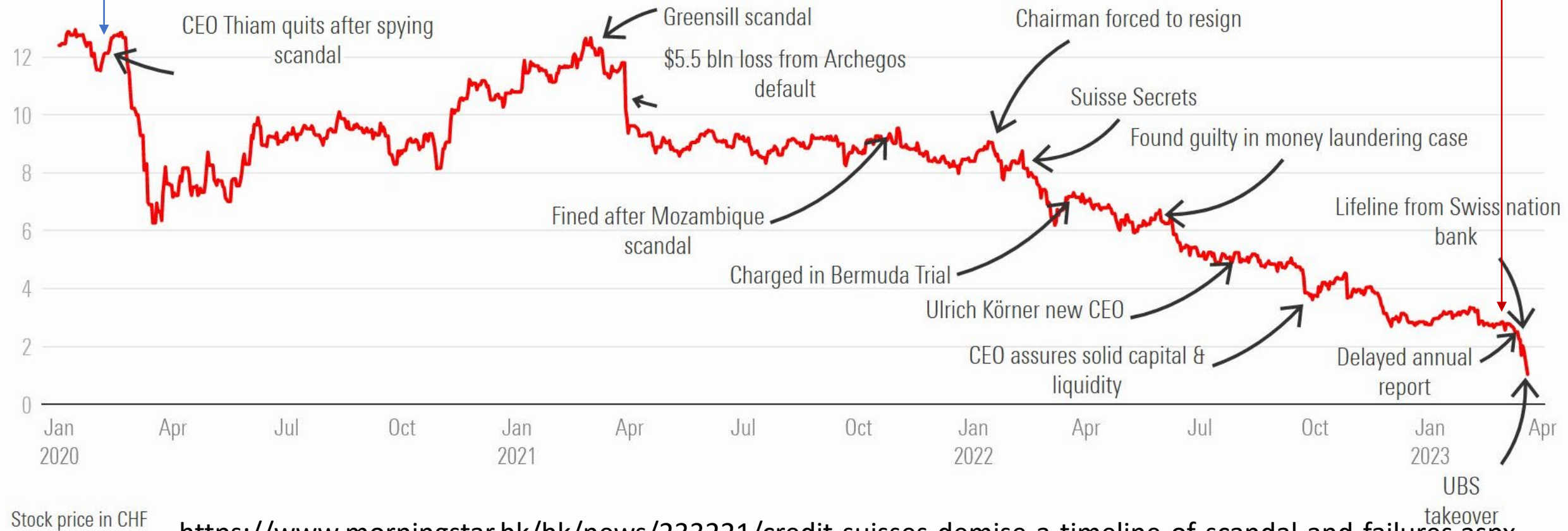
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Scandals between 2020 and 2023

07.02.2020 Phase 2

01.10.2022 – Phase 3

The Swiss bank's share price since the start of 2020, and the key events that marked its decline



<https://www.morningstar.hk/hk/news/233221/credit-suisse-demise-a-timeline-of-scandal-and-failures.aspx>

Phase 1

Violations of foreign supervisory laws



Credit Suisse fines in the US and UK from 2002-2022 (USD)

Date	Fine (USD)
22.01.2002	100'000'000
28.04.2003	75'000'000
04.05.2007	---
01.02.2012	---
16.11.2012	120'000'000
Sum 2002-2012	295'000'000

Date	Fine (USD)
21.02.2014	196'000'000
28.09.2015	4'250'000
31.01.2016	94'300'000
05.10.2016	90'000'000
18.01.2017	5'280'000'000
04.04.2017	5'750'000
05.07.2018	77'000'000
28.09.2018	10'000'000
22.09.2020	600'000
19.10.2021	475'000'000
27.09.2022	125'000'000
17.10.2022	495'000'000
Sum 2013-2022	6'852'900'000

Increase of foreign fines by 2'300%

Violations of foreign tax laws



Violations of Tax Regulations

Date	Facts	Share Price
20.05.2014	CS admitted in a plea deal to having aided and abetted the tax evasion of US citizens for decades. The bank was fined USD 2.6b	CHF 20.39
24.10.2022	Credit Suisse Group AG agreed to pay € 238m (USD 234m) to settle a French criminal case on aiding and abetting tax fraud	CHF 4.39
29.03.2023	U.S. Senate Finance Committee found that CS violated the 2014 plea deal. No sanctions yet	CHF 0.82

In sum fines amount to USD 2.'838'000'000

Manipulation of reference rates and cartel agreements

Manipulations of reference rates

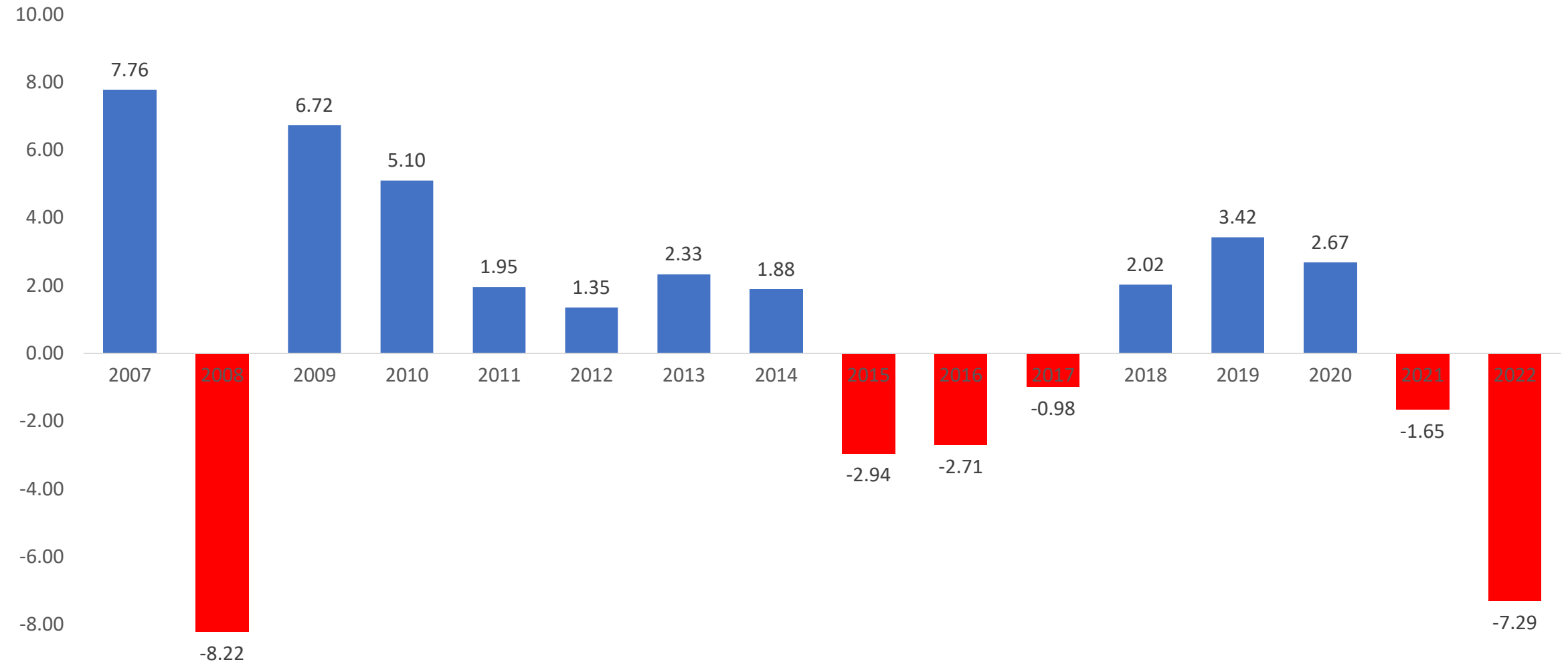
Credit Suisse was involved inter alia in

- 2012: LIBOR scandal (CS fined in 2014 = € 9.2m)
- 2008-2010: Gold price manipulation of a CS banker in the US (criminal verdict in 2022)
- 2011-2012: Forex manipulation (CS fined in 2021 = € 83.3m)

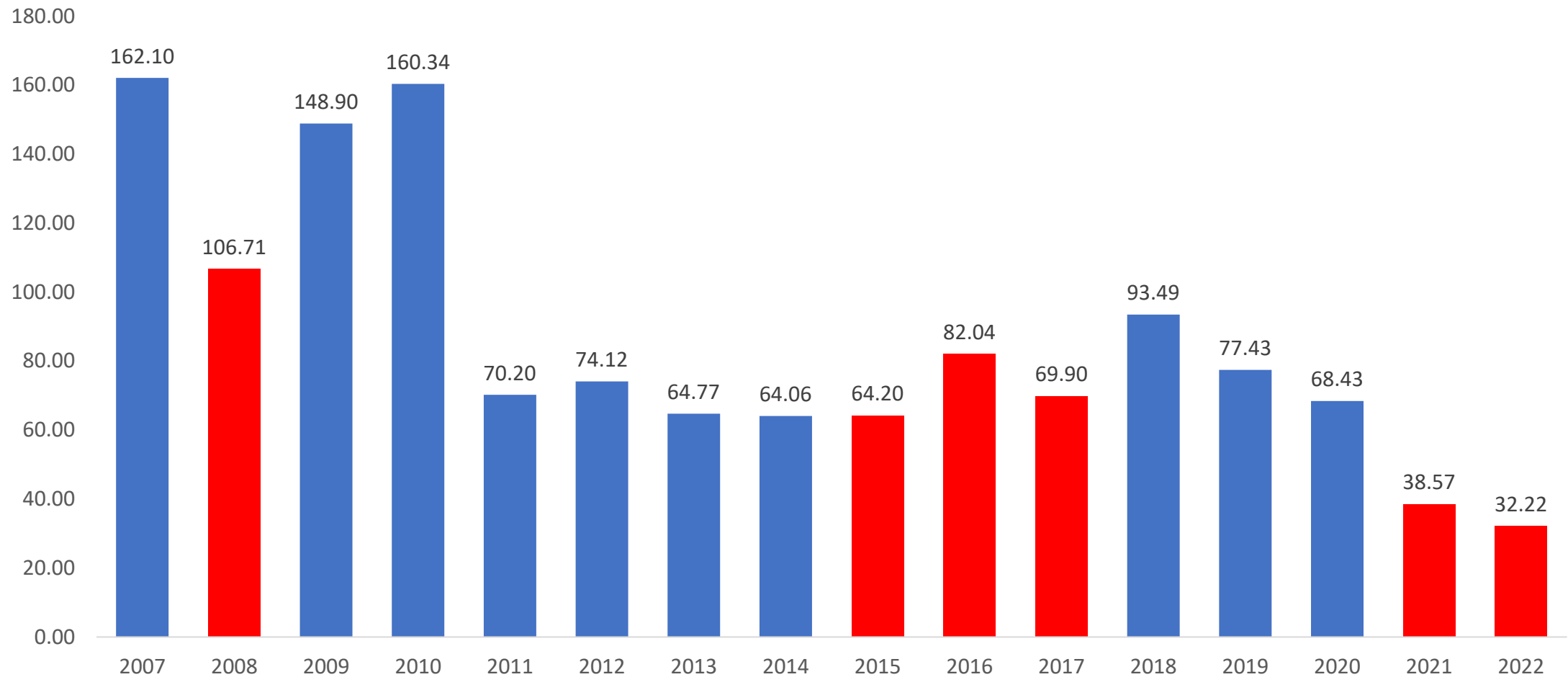
In sum fines amount to EUR 92'500'000

Compensation Culture

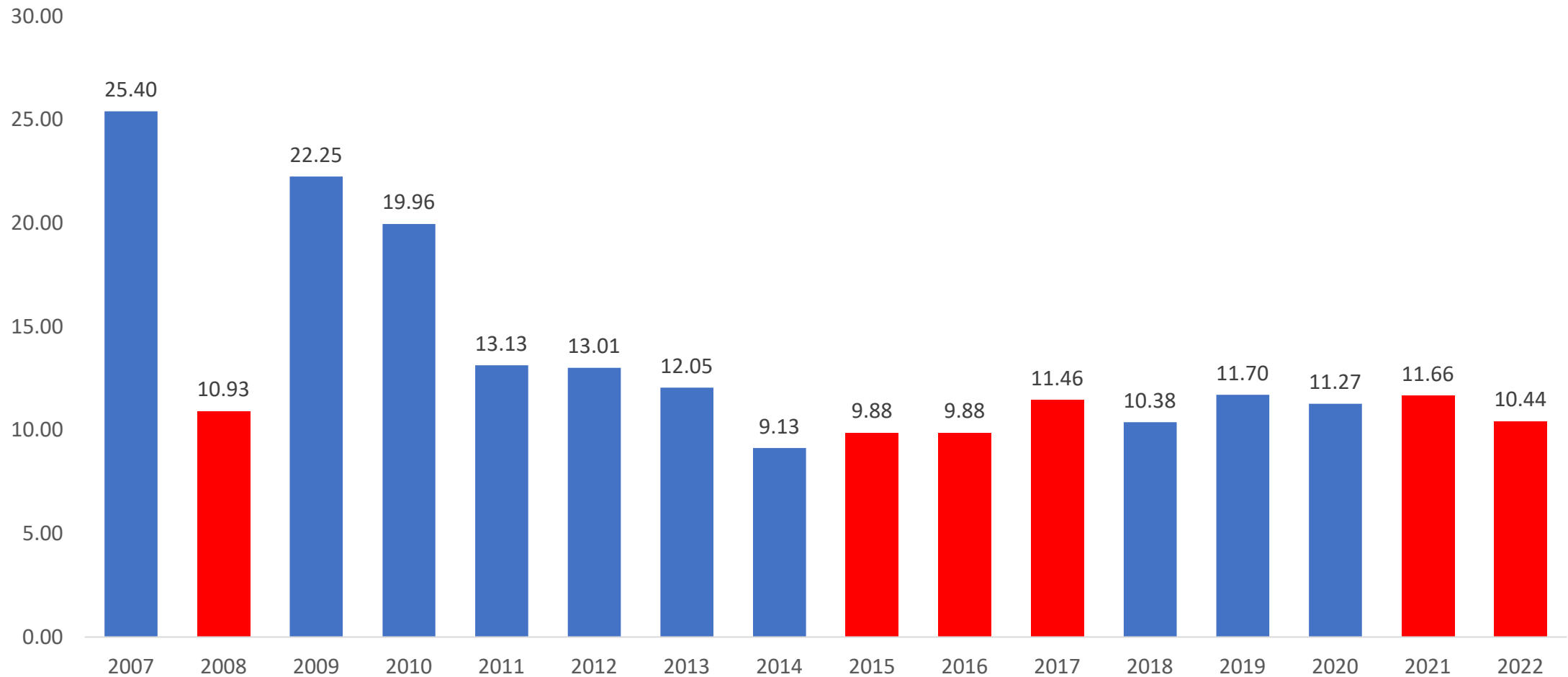
Credit Suisse – profits and losses (in billion CHF)



Compensation of the Management (fixed and variable in million CHF)



Compensation of the Board of Directors (fixed and variable in million CHF)



Phase 2: One Scandal after the next

- In 2019 CS hired private investigators to spy on its former head of wealth management Khan who had left CS to work for UBS
- When discovered, Credit Suisse played down the episode as an isolated incident. The Board of Directors lied to the public. Nevertheless CEO Tidjane Thiam resigned as consequence of the «Spygate», which was considered as a pawn sacrifice. Thomas Gottstein was appointed CEO
- According to FINMA, CS planned seven different spying operations between 2016 and 2019
- In its report from 19.10.2021 **FINMA found serious organisational shortcomings**. The bank had even tried to cover one observation by falsifying an invoice



Press release

Credit Suisse observation activities:
FINMA identifies serious breaches of
supervisory law

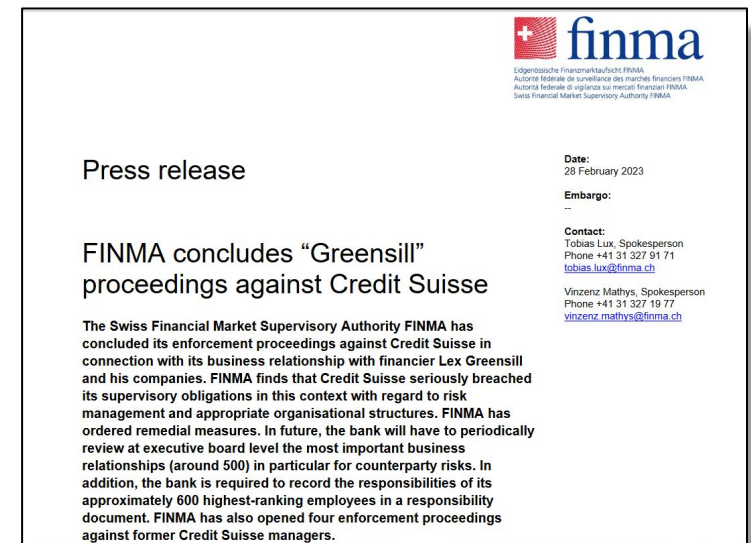
Date:
20 October 2021

Embargo:
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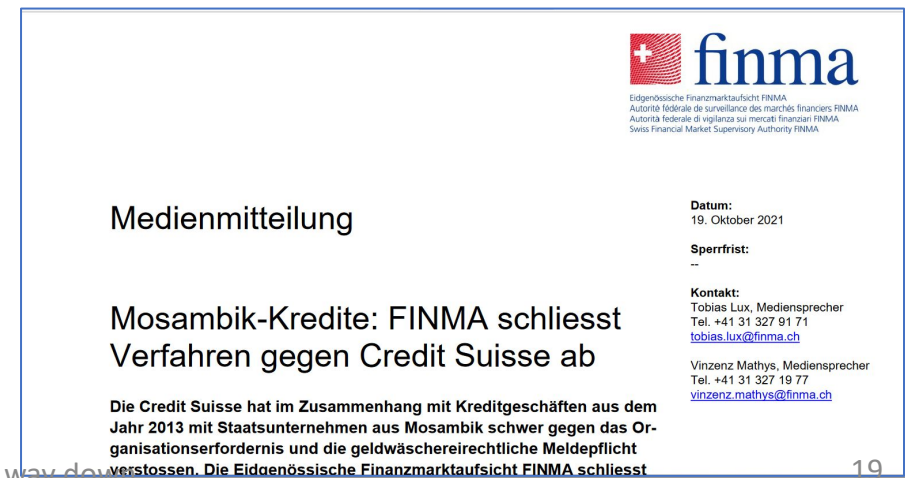
- Greensill Capital, a British financial firm specialised in short-term corporate loans via a complex business model, collapsed in 2021. Credit Suisse was heavily invested in the firm and had to close four connected funds, in which around USD 10b had been invested.
- To date CS was able to recover USD 7.4m
- Swiss financial regulator FINMA concluded that the bank "**seriously breached its supervisory obligations**" and ordered the bank to implement additional reporting and safeguards. It also opened four enforcement proceedings against former Credit Suisse managers



- Archegos Capital Management was a limited partnership family office. It managed the personal assets of Bill Hwang. On March 26, 2021, Archegos defaulted on margin calls from several global investment banks, including Credit Suisse. **The loss of CS amounts to USD 5.5b**
- At the general meeting 2021 the board of directors admitted mistakes and withdrew the motion of discharge. COB Urs Rohner renounced his candidacy.
- António Horta-Osório was elected as new COB. He had a good reputation as the saviour of Lloyds Banking Group (“Mr. Fix-it”).
- Thomas Gottstein stayed the CEO, but several top executives were fired, including risk manager Lara Warner



- Between 2012 and 2016, Credit Suisse Securities Europe Limited, the subsidiary of CS in the United Kingdom, organised USD 1.3 billion in loans for two Mozambican state-owned companies
- The subsidiary bypassed the head office in Zurich
- The money was supposed to buy ships for the coastguard and for tuna fishing. However, **most of the money flowed into private pockets in the form of kickbacks or bribes**
- The bank **violated the AML-provisions**
- US and UK authorities fined Credit Suisse USD 475m. In addition, the bank had to write off USD 200m in debt to Mozambique



- Mr Fix-it, the newly appointed COB had to resign after nine months only
 - He admitted **having broken the Corona-restrictions**, inter alia to visit the Wimbledon tennis tournament
 - Suddenly the bank sanctioned minor breaches of law after having ignored massive violations for a long time
-
- Axel P. Lehmann was appointed as new COB



- A global media investigation revealed data on more than 30'000 Credit Suisse bank customers with 18'000 bank accounts, collectively holding more than USD 100b
- **Customers were heads of state, intelligence officials, drug lords and sanctioned businessmen, publicly known for their involvement in human rights abuses, drug trafficking, corruption, money laundering and other serious crimes**
- Credit Suisse rejects all allegations claiming that 90% of the reviewed accounts were closed or were in the process of closure. In fact, Credit Suisse did admit to have accepted them as clients in the past.

- In 2014 CS started a new business model providing loans to billionaires to buy private jets. The business was later on securitized, the risk transferred to hedge funds and an interest rate 11% offered.
- In connection with the US sanctions against oligarchs, it became known on 2 March 2022 that **Credit Suisse had asked its investors to destroy documents** linked to the securisation of yacht loans of oligarchs.

- A Bermuda court ruled that former Georgian prime minister Ivanishvili was entitled to damages of USD 553m as a result of a long running fraud committed by a former Credit Suisse star banker, Patrice Lescaudron.
- Lescaudron was sentenced to five years in prison in 2018 for abusing the trust of clients and putting in place a fraudulent scheme that brought him tens of millions of francs
- In a second lawsuit in Singapore credit Suisse was sentenced to pay damages of USD 925m (26.5.2023)

- The Swiss Federal Criminal Court found Credit Suisse and a former employee guilty of failing to prevent money laundering by a Bulgarian cocaine-trafficking ring from 2004 to 2008
- The bank was fined CHF 2m

- The Attorney General's Office of New Jersey reached a USD 495m settlement with Credit Suisse to resolve allegations of fraud and deceit in sale of toxic mortgage-backed securities in 2008

- Credit Suisse Group AG agreed to pay € 238m (USD 234m) to settle a French criminal case on aiding and abetting tax fraud

Damage caused by the scandals 2020-2022

CS Share Price fell from CHF 12.45 to 2.76

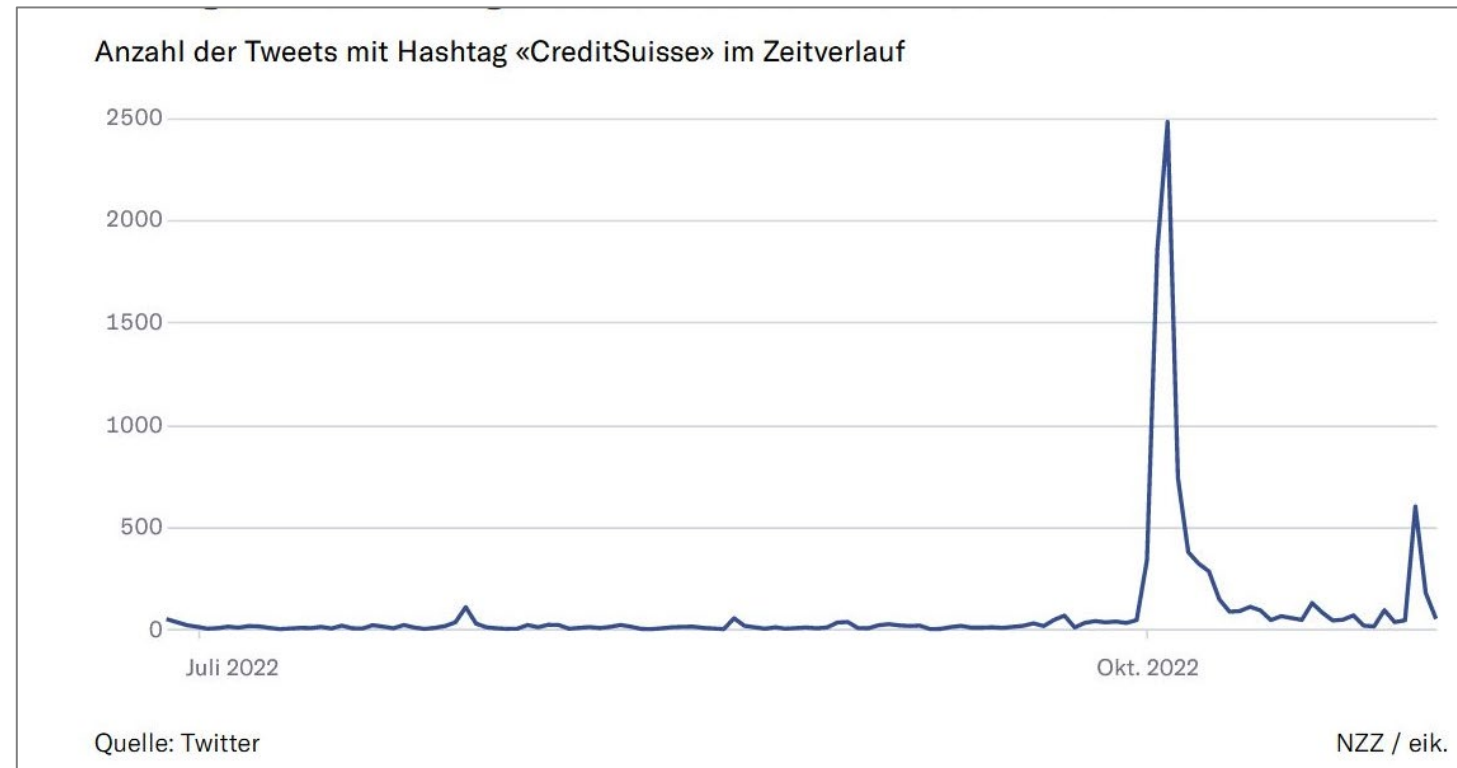
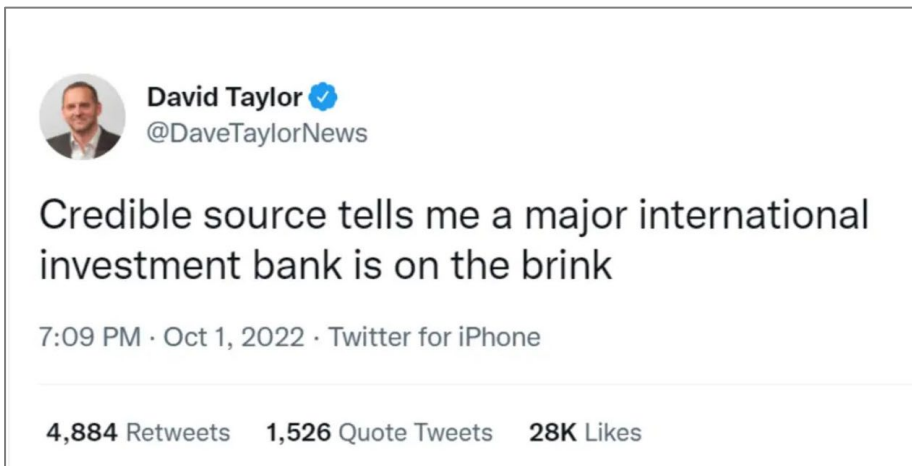
	Scandal	USD
1	Spy Gate (internal investigation costs)	unknown
2	Greensill	2'600'000'000
3	Archegos Default	5'500'000'000
4	Mozambique Scandal	475'000'000
5	COVID Scandal (9 month salary)	ca. 3'537'806
6	Suisse Secrets data leak	Unknown
7	Circumvention of sanctions	Unknown
8	Bermuda Judgement	550'000'000
9	Cocaine Money Laundering	2'086'420
10	RMBS	495'000'000
11	French Plea Bargain	234'000'000
	Sum	9'859'624'226

Phase 3: Terminal stage



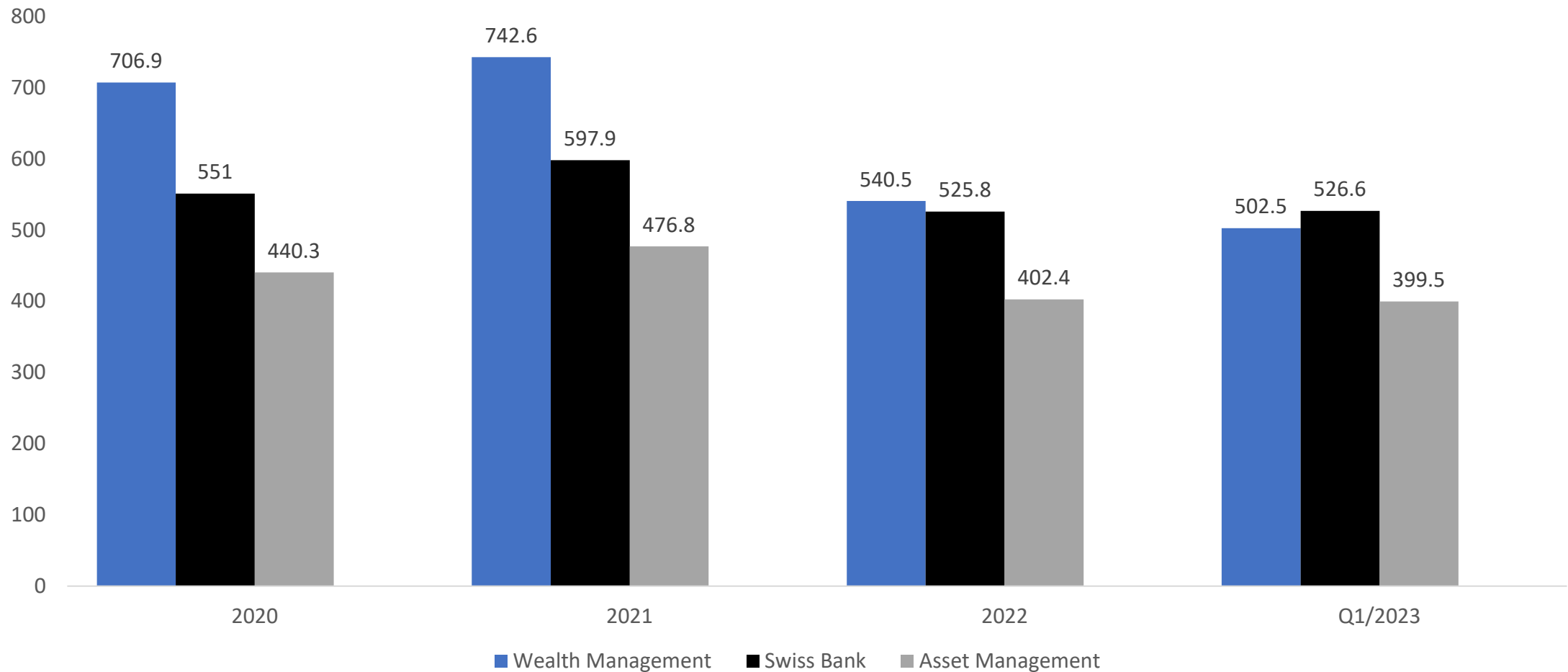
NZZ 24.3.2023

- Tweet of David Taylor didn't name the bank, but was immediately attributed to CS and retweeted
- A sharp increase in customer outflows or withdrawals of client funds started



Assets under Management

Between October and December 2022 CS lost CHF 110,5 billion assets under management



<https://de.statista.com/statistik/daten/studie/1372911/umfrage/verwaltete-vermoegen-der-credit-suisse-nach-divisionen/>

- One capital increase in November and one in December (CHF 4b)
- Axel Lehmann stated in the Financial Times that customer outflows had not only “completely flattened out,” but had, in fact, “partially reversed.”¹
- The statement turned out to be false. The outflows continued in Q1/23 by CHF 61.5b
- FINMA denied any breach of supervisory law (10.3.2023). Most likely FINMA didn’t sanction Axel Lehmann’s market deception of 1 December 2022 because that would have triggered an even faster collapse of the bank

¹ <https://www.bloomberg.com/press-releases/2023-03-13/credit-suisse-group-ag-cs-shareholder-alert-robbins-llp-reminds-investors-of-class-action-against-credit-suisse-group-ag>



Press release

FINMA sees no sufficient grounds for proceedings following investigations into statements on outflows of client funds at Credit Suisse

Date:
10. March 2023

Embargo:

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- 7.3.2023: Major shareholder Harris Associates L.P, Chicago, withdraws from Credit Suisse. The fund owned 10.1% of the shares, which lost 90% of their value between 2013 and 2022
- Biggest shareholders are now Sovereign Wealth Fund of Qatar (7%) and Saudi National Bank (9,9%)
- 8.3.2023: SEC prohibits publication of the annual report 2022 due to inconsistencies in the consolidated cash flow statements 2020 and 2019



Harris & Associates



- 15.3.2023: President of the Saudi National Bank declared not to invest into Credit Suisse anymore. He explained that a stake above 10% threshold would require the approval of FINMA. The public noticed only the first half of the statement and was alarmed
- 15.3.2023: To calm the public the Swiss National Bank and FINMA declared that “Credit Suisse fulfils the capital and liquidity requirements for systemically important banks. If necessary the Swiss National Bank will provide liquidity.”

- 19.3.2023:
 - Emergency Takeover of Credit Suisse by UBS, see **presentation of Seraina Grünewald**

Conclusions

Conclusions (1)

When Jean-Daniel Gerber¹ stepped down in 2015 after only three years on the CS-board of directors, he made a clairvoyant assessment:

- Credit Suisse should not simply strive to be a "money machine" but should be committed to certain values as an institution: "**integrity and ethical behaviour**"
- The Bank should reflect "political and social responsibilities" in its business conduct. "The large number of internal disciplinary actions the bank has to take each year shows that **we are nowhere near where we should be**"
- The bank should **stop fighting the regulator**. The US Federal Reserve gave CS only the second-worst rating of "fair", FINMA rated it "subject to intensive supervisory procedures"
- He stated that "the entire **compensation system is not adequate**"

¹ NZZ-Magazin Online 08.04.2023

Conclusions (2)

- Credit Suisse suffered an **unusual type of bank run**. Customers were not concerned about the capital side of the bank but – from October 2022 onwards – lost confidence in the skills and integrity of the management. The liquidity problem only arose on 15 March 2023
- The **amount of scandals**, violations of Swiss and foreign supervisory laws, tax laws, anticorruption laws and antitrust laws was **unique**
- The ethical standards of the bank were far too low. The new management and the changes in risk management **came too late**
- Many journalists claim that the **business model “investment banking”** ruined the bank, but it was also (or mainly) the bank’s conduct
- FINMA acted **too late**. The supervisors should have already replaced the board of directors after the “Spygate”. It could have limited the bonuses much earlier