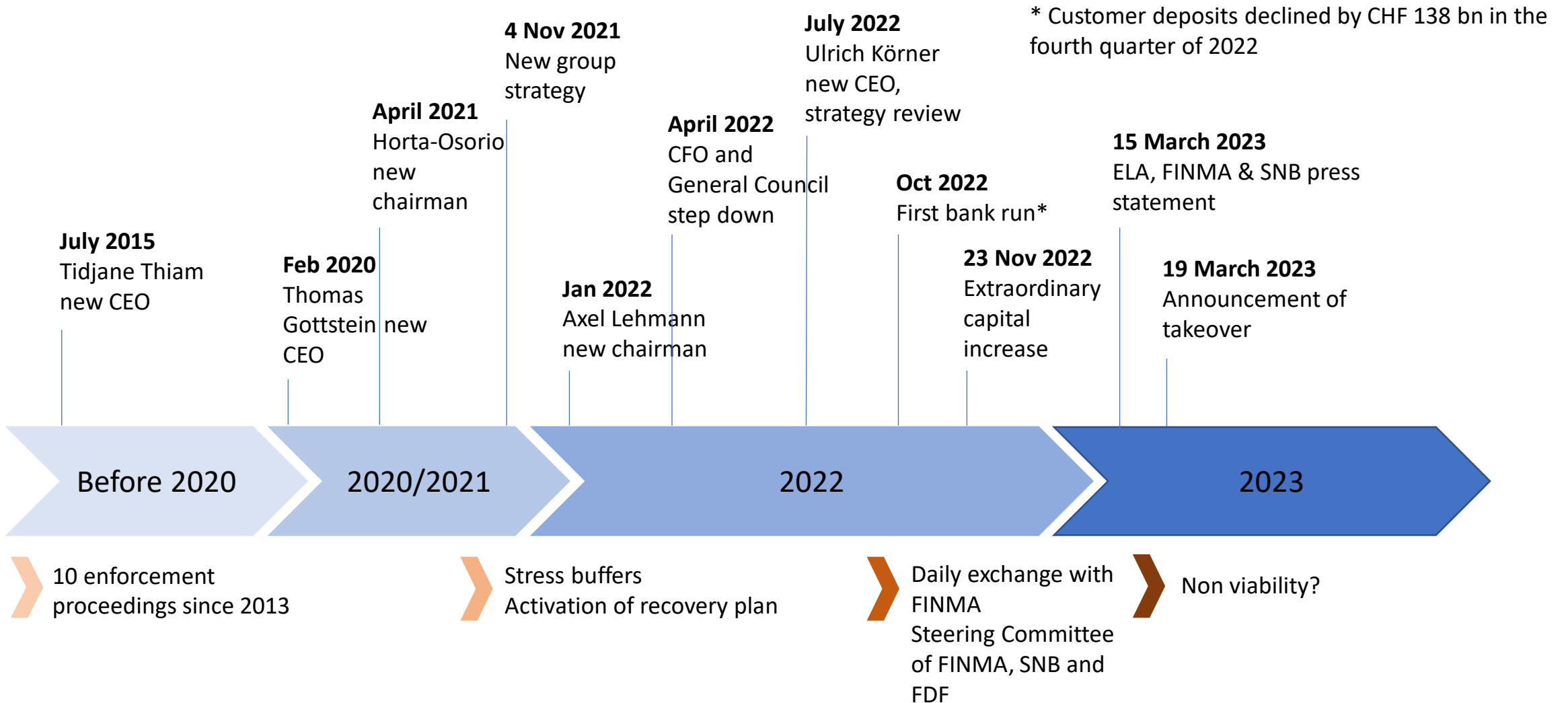


# The emergency takeover of Credit Suisse

Seraina Grünewald

EBI debate, 30 May 2023

# Chronology of Credit Suisse's demise



# Measures of 19 March 2023

Federal  
Council

Credit Suisse

UBS

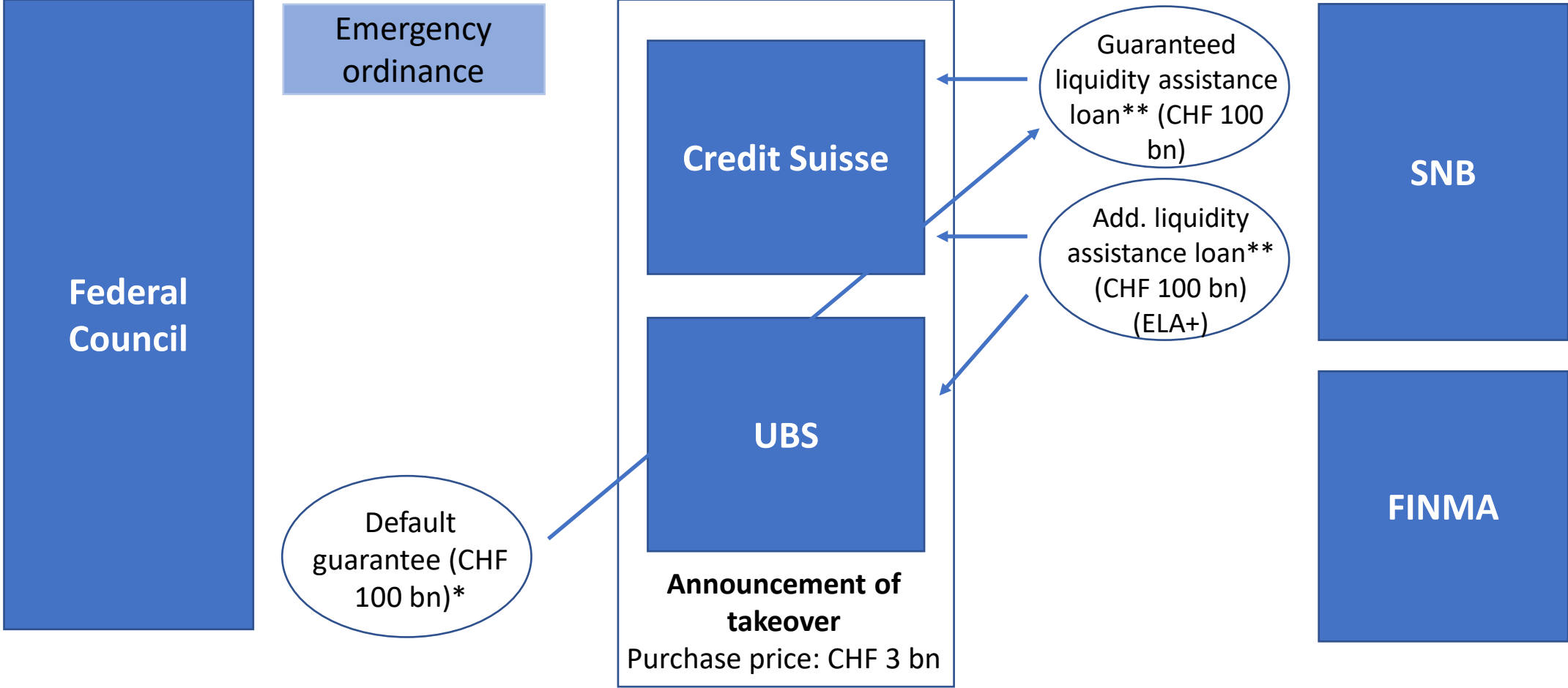
**Announcement of  
takeover**

Purchase price: CHF 3 bn

SNB

FINMA

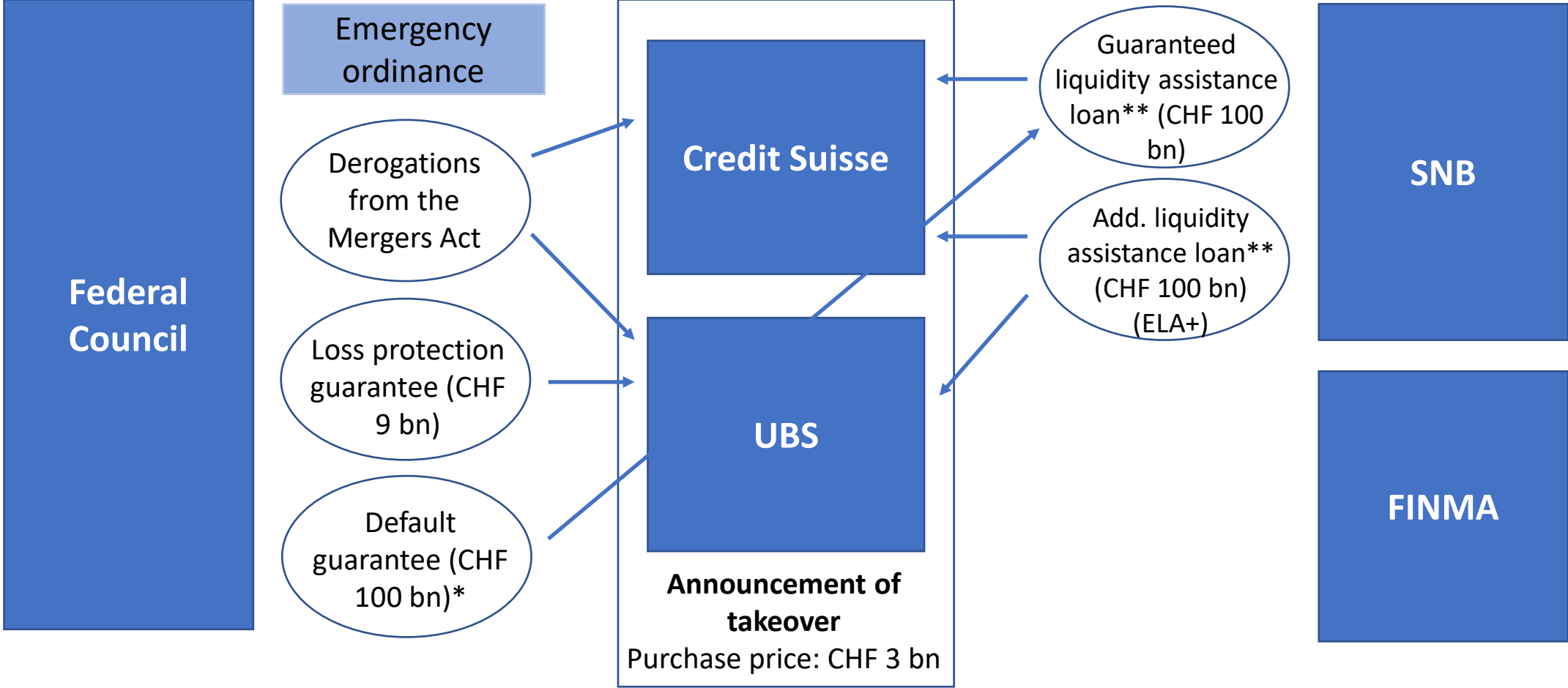
# Measures of 19 March 2023



\* based on a planned Public Liquidity Backstop (PLB)

\*\* with privileged creditor status in bankruptcy

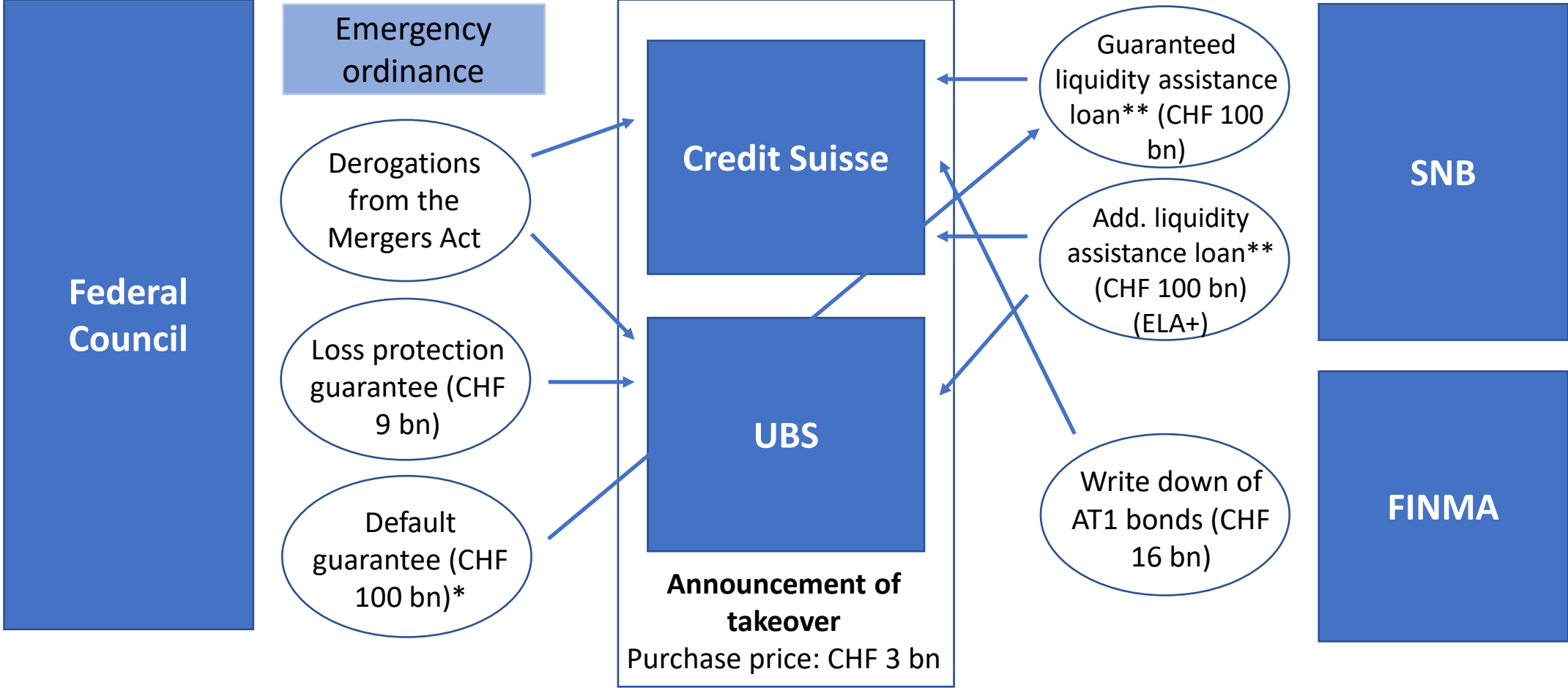
# Measures of 19 March 2023



\* based on a planned Public Liquidity Backstop (PLB)

\*\* with privileged creditor status in bankruptcy

# Measures of 19 March 2023



\* based on a planned Public Liquidity Backstop (PLB)

\*\* with privileged creditor status in bankruptcy

# Why not resolution?



“Four options were prepared and pursued until the decision was made: resolution, the emergency plan with bankruptcy of the group, ‘temporary public ownership (TPO)’ and a takeover. Specifically, this meant that on 19 March, a draft resolution decree and a bankruptcy decree with the respective plans of action were also ready for signature.”

Marlene Amstad, Chair of FINMA’s Board of Directors

5 April 2023

# Why not resolution?

## Progress of the institutions' work as at the end of 2022

Institution	Recovery plan	Swiss emergency plan	Institution resolvability	Rebates
Credit Suisse	Approved	Effective	Preparatory measures adequate	Maximum potential rebate (62.5%) utilised <sup>4</sup>
UBS	Approved	Effective	Preparatory measures adequate	Maximum potential rebate (62.5%) utilised <sup>4</sup>
PostFinance	Approved	No plausible plan for reaching effectiveness <sup>1</sup>	As emergency plan	Not applicable
Raiffeisen	Approved	Effective	As emergency plan	Not applicable
Zürcher Kantonalbank	Approved	Plausible plan for reaching effectiveness	As emergency plan	Not applicable
SIX x-clear	Approved	Not applicable	Preferred resolution strategy defined <sup>2</sup>	Not applicable
SIX SIS	Approved	Not applicable	Resolution strategy under preparation <sup>3</sup>	Not applicable

Source: FINMA Resolution Report 2022

<sup>1</sup> The strategy (recapitalisation guarantee by the federal government) has become obsolete due to the decision not to approve the revision proposal for the Post Organisation Act.

<sup>2</sup> Preparations for the implementation readiness are still being made.

<sup>3</sup> The basis for defining the strategy was created.

<sup>4</sup> The rebate system was replaced by the resolvability assessment on 1 January 2023 to continue to set incentives to maintain or improve resolvability. FINMA now has the ability to impose surcharges on the gone concern or liquidity requirements if shortcomings are identified in the resolvability assessment.



# Why not resolution?

## Official explanations:

1. Credits Suisse was the victim of a bank run but remained well-capitalized. The resolution framework is not attuned to such liquidity crisis.
2. A “private deal” between the two banks was preferable to public intervention by the resolution authority.
3. The orchestrated takeover was to avoid a Lehman-moment for the global financial system.

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# Statutory conditions for resolution (1)

## **Article 25(1) Banking Act**

Should there be a justified concern that a bank is overindebted or has serious liquidity problems or that the bank can no longer fulfill the capital adequacy provisions after the expiry of a deadline set by FINMA, FINMA may order the following:

- a. protective measures (“Schutzmassnahmen”) pursuant to Article 26;
- b. restructuring procedures pursuant to Articles 28–32;
- c. the bank’s liquidation due to bankruptcy (bankruptcy of the bank) pursuant to Articles 33–37g.

# Statutory conditions for resolution (2)

## **Article 30(1) Banking Act**

If it appears likely that the bank can be restored to full viability or can continue to provide parts of its services, FINMA may initiate the bank's restructuring.

# Underlying problem 1: lack of statutory resolution financing

- Most resolutions will require some form of (quasi-)public financing, even if only temporarily
- Switzerland's resolution framework relies on write-down of capital instruments and bail-in entirely
  - No resolution fund
  - No DGS that could be used in resolution
- Public Liquidity Backstop proposed to become a permanent part of the regulatory framework → its use is to *trigger* resolution!
- But no other forms of funding (e.g., guarantees)

# Underlying problem 2: effectiveness and proportionality of bail-in?

- Resolution would have entailed:
  1. Full write down of capital
  2. Full write down of AT1 bonds
  3. Conversion of bail-in bonds issued by holding company
- It would have generated around CHF 73 billion in fresh capital!
- Would it have solved the trust issue?
- Bondholders could have claimed lack of proportionality of the measure given Credit Suisse's intact capital base...

# Instead: Write down of AT1 bonds (1)



## **Credit Suisse Group AG**

*(incorporated with limited liability in Switzerland)*

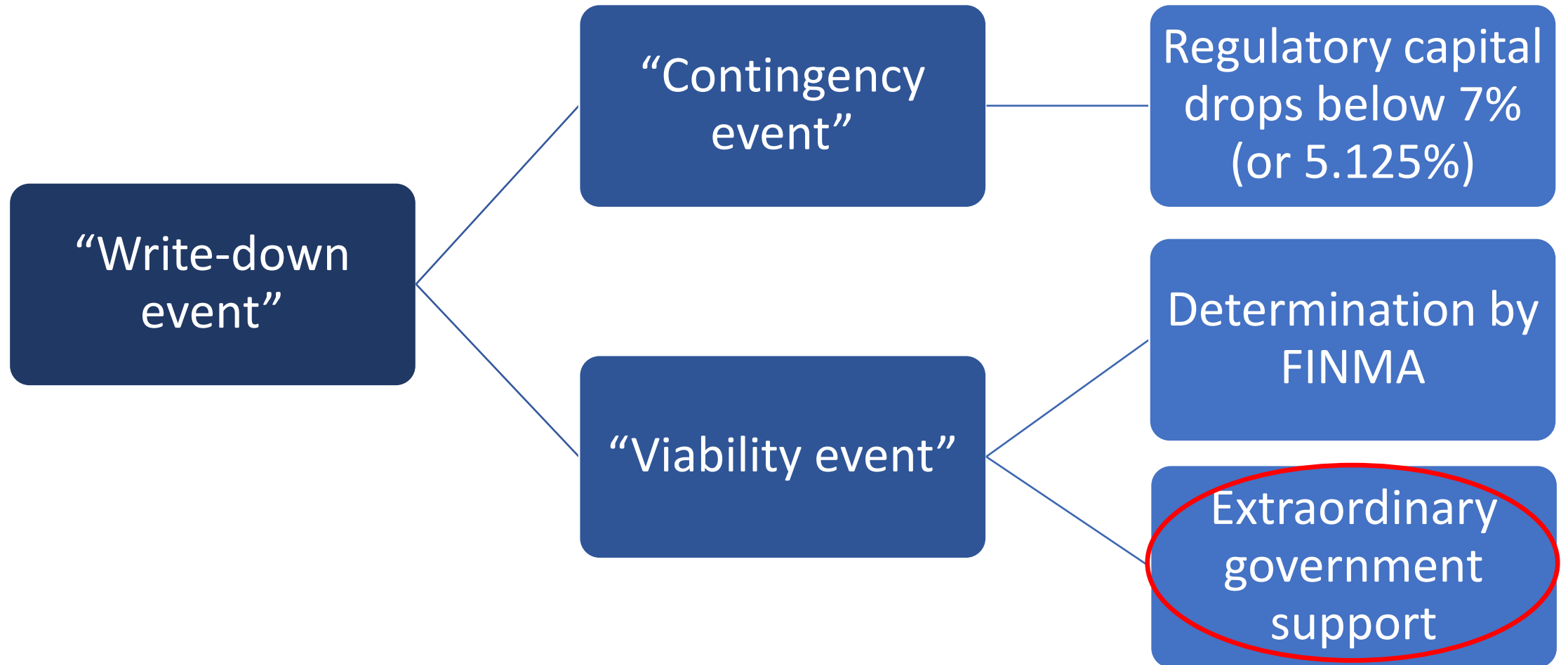
U.S.\$1,650,000,000 9.750 per cent. Perpetual Tier 1 Contingent Write-down Capital Notes

**Issue Price: 100.000 per cent.**

**Write-down .....**

Following the occurrence of a **Write-down Event**, a Write-down will occur and the full principal amount of the Notes will automatically and permanently be written-down to zero on the Write-down Date.

# Instead: Write down of AT1 bonds (2)





# Instead: Write down of AT1 bonds (3)

Extraordinary  
government  
support

“customary measures to improve CSG’s capital adequacy being at the time inadequate or unfeasible, CSG has received an irrevocable commitment of extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course) that has, or imminently will have, the effect of improving CSG’s capital adequacy and without which, in the determination of the Regulator, CSG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.”

# Instead: Write down of AT1 bonds (4)

## **Art. 5a Emergency Ordinance (19 March 2023)**

At the time of the credit approval in accordance with Article 5 [approval of PLB default guarantee], FINMA may order the borrower and the financial group to write down additional Tier 1 capital.

# Why not resolution?

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3. The orchestrated takeover was to avoid a Lehman-moment for the global financial system.

# How “private” was the deal? (1)

As filed with the Securities and Exchange Commission on April 26, 2023

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM F-4**  
REGISTRATION STATEMENT  
*UNDER*  
*THE SECURITIES ACT OF 1933*

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**UBS Group AG**  
(Exact Name of Registrant as Specified in its Charter)

PROSPECTUS OF UBS GROUP AG



MERGER BETWEEN UBS GROUP AG AND CREDIT SUISSE GROUP AG

“in a meeting of February 20, 2023, the Strategy Committee, and in a meeting on February 22, 2023, the Board of Directors, each concluded that an acquisition of Credit Suisse was not desirable for UBS Group AG but that further analysis was necessary in order to prepare for a scenario where Credit Suisse was in serious financial difficulties. In reaching this view, the Strategy Committee and the Board of Directors considered the uncertainty of establishing a reliable valuation of Credit Suisse, recent business performance and risks of Credit Suisse, further potential liabilities and transaction uncertainty.”

# How “private” was the deal? (2)

As filed with the Securities and Exchange Commission on April 26, 2023

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM F-4**  
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PROSPECTUS OF UBS GROUP AG



MERGER BETWEEN UBS GROUP AG AND CREDIT SUISSE GROUP AG

“Government Representatives indicated that of all possible options available to give the market necessary reassurance, the one deemed by Government Representatives to be most successful in reassuring markets and minimizing negative fallout was an orderly takeover of Credit Suisse by UBS Group AG on a going concern basis. UBS Group AG was therefore asked whether it was willing to consider merging with Credit Suisse in principle.”

# How “private” was the deal? (3)

As filed with the Securities and Exchange Commission on May 16, 2023

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Amendment No. 1**

to

**FORM F-4**

**REGISTRATION STATEMENT  
UNDER  
*THE SECURITIES ACT OF 1933***

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**UBS Group AG**

(Exact Name of Registrant as Specified in its Charter)

- UBS reports a pro forma negative goodwill from the merger of USD 34,8 bn
- Mark-downs on Credit Suisse’s assets by USD 13 bn, USD 4 bn to cover regulatory and litigation matters
- Effects of the loss protection agreement with the Swiss Confederation not included

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# A Lehman-moment?



“(...) the swift action of the Swiss authorities and UBS has certainly avoided a contagion, which could have resulted in a significant disturbance of the financial system or a global financial crisis, indeed.”

Interview with Marcel Rohner (President of Swiss Banking)  
22 May 2023

**Maybe, but at what price...?**



Thank you for your attention!