



7.03.2024 (updated version)

FAQ Credit Suisse

What effect did the takeover of Credit Suisse by UBS have?

The private takeover of Credit Suisse by UBS, supported by a public liquidity backstop, strengthened confidence in the financial system and created stability for the international financial system, thereby averting serious consequences for the Swiss economy, while at the same time keeping the cost for the state and taxpayers as low as possible. All of the foreign supervisory authorities involved viewed the Swiss authorities' action as appropriate. It also provided reassurance to international financial markets.

What would Credit Suisse bankruptcy have brought about?

The bankruptcy of a systemically important bank like Credit Suisse would have had drastic consequences for Switzerland. Banks in general, but systemically important banks in particular, are key for a national economy to function, as businesses and households depend on them for their economic operations. The failure of a systemically important bank would have ramifications that go beyond the loss of tax contributions or jobs at the bank in question. First, the bank's failure would mean that hundreds of thousands of clients throughout Switzerland – including many SMEs – would lose access to a substantial portion of their bank balances and would quickly find themselves unable to meet their payment obligations. SMEs and households throughout Switzerland would have found it almost impossible to function economically. The Swiss economy would have run the risk of grinding to a halt.

In the case of globally active systemically important banks, there is also a high risk of contagion. The discovery that clients of a globally active systemically important bank are no longer able to access their assets would trigger a loss of confidence both in Switzerland and globally. Other, fundamentally "healthy" banks in Switzerland would be affected. The uncontrolled failure of a globally active systemically important bank could then trigger a global financial crisis.

Liquidity assistance and risks for the Confederation

Why was state liquidity assistance needed and what form did it take?

Despite the bank's own liquidity supply and the SNB's extraordinary liquidity assistance, incidents may occur that can lead to an abrupt loss of confidence in the bank by market participants and thus to liquidity problems. This can be the case even

if the bank meets the regulatory capital requirements. The liquidity assistance would also have been necessary under alternative scenarios such as a public takeover.

How were the various liquidity assistance measures and risk guarantees from the public sector authorities structured?

- CHF 100 billion in additional liquidity assistance loans from the SNB to Credit Suisse and UBS, secured by preferential rights in bankruptcy proceedings for the SNB, but without a state guarantee from the Confederation (= additional emergency liquidity assistance, or ELA+).
- CHF 100 billion in secured liquidity assistance from the SNB, secured by preferential rights in bankruptcy proceedings for the SNB, coupled with strict conditions, and by a state guarantee from the Confederation (= public liquidity backstop; PLB). The preferential rights in bankruptcy proceedings and the strict conditions significantly reduced the risk for the Confederation. The PLB agreement between the SNB and CS was terminated on 11 August 2023.
- A state guarantee of a maximum of CHF 9 billion for UBS to cover any losses on the sale of specific Credit Suisse assets, consisting essentially of assets that did not fit UBS's strategy. The first CHF 5 billion of any losses on these positions would have been borne by UBS in any case. The loss protection agreement between the Confederation and UBS was terminated with effect from 11 August 2023.

Not part of the package of 19 March 2023:

- CHF 50 billion in emergency liquidity assistance from the SNB. This is an existing SNB monetary policy instrument. Banks can access SNB liquidity against collateral (= emergency liquidity assistance, or ELA). According to its own press release of 16 March 2023, Credit Suisse accessed up to CHF 50 billion under this arrangement.

What exactly is meant by preferential rights in bankruptcy proceedings?

In the event of bankruptcy, outstanding loans from the SNB, insofar as these are additional liquidity assistance loans within the meaning of the emergency ordinance, are assigned to the second bankruptcy class and are thus repaid from the bankruptcy estate immediately after the first class (including employee wages, social security contributions). Within the second bankruptcy class, these claims are ranked after privileged liabilities (e.g. social security contributions, privileged deposits), but ahead of the remaining claims in the third bankruptcy class.

What is the financial outcome for the Confederation?

The Confederation earned receipts totalling around CHF 200 million from the state-guaranteed liquidity assistance and the loss protection guarantee (40 mn loss protection guarantee, 100 mn PLB commitment premium, 60.6 mn risk premium for the PLB effectively utilised). This covered expenditure incurred by the Confederation for consultancy services provided by external experts in connection with the UBS guarantee.

Where does Switzerland stand in terms of a public liquidity backstop?

Internationally, a public liquidity backstop is part of the standard crisis toolkit. It can be a critical prerequisite for a systemically important bank's business continuity. Public liquidity backstops (PLBs) are based on recommendations of the Financial Stability Board (FSB), and have been introduced in different forms in various jurisdictions (e.g. United States, United Kingdom, European Union). The Federal Council had to use an emergency ordinance during the Credit Suisse crisis in March 2023, as Switzerland does not have a PLB anchored in law. In September 2023, the Federal Council adopted the dispatch to Parliament on the introduction of the PLB into ordinary law.

The Confederation gave a CHF 100 billion guarantee to the SNB and a CHF 9 billion guarantee to UBS. How are these amounts recognised in the state financial statements?

The corresponding agreements were terminated, which means that the Confederation no longer has any financial obligations in the form of guarantee credits. Consequently, the Confederation is no longer exposed to any financial risks in this regard.

Loss protection guarantee

Why was a loss protection agreement between the Confederation and UBS necessary?

At the beginning of March, Credit Suisse experienced a crisis of confidence. It was no longer able to restore market and client confidence on its own, or to avoid bankruptcy or restructuring. As a result, the Swiss economy also faced unforeseeable upheaval. It was possible for these serious consequences to be averted by UBS taking over Credit Suisse. This takeover emerged as the best overall solution for financial stability and the Swiss economy. The pivotal element was the federal government's willingness to assume any losses on certain assets up to a maximum of CHF 9 billion, provided that UBS shouldered losses of at least CHF 5 billion. The loss protection agreement governed the specifics of this guarantee. The in-depth analysis of the assets acquired through the takeover of Credit Suisse took time. UBS then came to the conclusion that the guarantee was no longer necessary.

Why was the loss protection agreement terminated?

After the completion of the takeover of Credit Suisse on 12 June 2023, UBS was better able to assess the actual risk of losses arising from the Credit Suisse assets defined in the loss protection agreement. By terminating the agreement, UBS ceased to benefit from the federal loss protection guarantee for these assets. The Confederation thus achieved its goal of enabling a takeover of Credit Suisse and thereby stabilising the financial centre without burdening the state.

Who terminated the loss protection agreement?

UBS voluntarily decided to terminate the agreement. The loss protection agreement allowed for immediate termination at any time by UBS.

Is the termination of the loss protection agreement final or can a new agreement be concluded if necessary?

The termination of the loss protection agreement is final. UBS thus voluntarily decided not to avail itself of the federal loss protection guarantee. The legal basis required for the loss protection agreement (Art. 14a of the Federal Council's emergency ordinance of 16 March 2023) was limited until 16 September 2023. The Confederation cannot enter into a new loss protection agreement without a legal basis and without an approved guarantee credit.

Which costs for the Confederation were covered by the loss protection agreement?

The Confederation engaged specialised external consultants in connection with the loss protection agreement with the aim of minimising the risks for the Confederation and the taxpayer as far as possible. The costs of these external consultancy services were more than covered by the set-up fee of CHF 40 million.

How much did UBS pay in total for fees and premia for the federal default guarantee?

UBS paid CHF 40 million in the form of a set-up fee. The first tranche of CHF 20 million was paid at the end of June 2023 and the second tranche at the end of September 2023.

Public liquidity backstop

Why was this agreement terminated?

As of the end of May 2023, Credit Suisse had repaid its outstanding PLB amounts in full to the Swiss National Bank (SNB). The next logical step was to terminate the loan agreement between the SNB and Credit Suisse, and the loss protection agreement between the Confederation and the SNB.

Who terminated the agreement?

The agreement between the SNB and Credit Suisse was terminated by mutual consent. The termination of the agreements for liquidity assistance loans with a federal default guarantee up to a maximum of CHF 100 billion (public liquidity backstop) meant that the federal guarantee also ceased. The Confederation did not have to make any payments under the guarantee and therefore did not suffer any loss. Upon termination, the Confederation had earned receipts totalling CHF 161.3 million on the default guarantee for the SNB loans to Credit Suisse.

Is the termination of the PLB agreement final or can a new agreement be concluded if necessary?

The termination of the PLB agreement is final. Credit Suisse (and UBS as legal successor) thus voluntarily decided not to avail itself of liquidity assistance loans with a federal default guarantee. This means the federal guarantee credit needed for the guarantee ceased to exist. It is not possible to conclude a new guarantee agreement without a guarantee credit.

In September 2023, the Federal Council adopted the dispatch to Parliament on the introduction of the public liquidity backstop (PLB) into ordinary law. Did the termination of the PLB agreement by UBS affect the dispatch?

Somewhat. This dispatch is also intended to simultaneously transfer into ordinary law not only the framework for a PLB instrument as introduced in March 2023 by the Federal Council via ordinance, but also other measures introduced at that time to support the takeover of Credit Suisse by UBS that still appear necessary. The termination of the PLB agreement had no impact on the ordinary part, i.e. the introduction of a PLB instrument. However, the provisions of the ordinance of 16 March 2023 relating to this agreement became obsolete as a result of the termination. Consequently, only certain provisions of the ordinance in connection with the granting of additional liquidity assistance loans (ELA+) were submitted to Parliament as formal legal provisions.

Emergency law

Why did the Federal Council have to introduce measures under emergency law?

Although the existing TBTF regulations strengthened the capital base and liquidity of systemically important banks, the Federal Council had only sketched out the parameters for a potential state guarantee for liquidity assistance (public liquidity backstop), an instrument that has been tried and tested internationally, and the corresponding legislative project was still in the pipeline at the time of the Credit Suisse crisis. In view of the severe market turmoil Credit Suisse was facing, the Federal Council introduced this instrument based on emergency law under Articles 184 and 185 of the Federal Constitution in order to safeguard the stability of the Swiss economy and the global financial system.

The Federal Council submitted a bill based on the emergency law ordinance to Parliament within six months. What would happen if the ordinance were not converted into law, or if Parliament rejected the conversion?

Legislation issued by the Federal Council on the basis of Article 184 paragraph 3 and Article 185 paragraph 3 of the Federal Constitution must always apply for only a limited period. Any emergency ordinance would expire after six months if no dispatch had been submitted to Parliament in the meantime (Art. 7 of the GAOA). For reasons of legal certainty, specific measures taken on the basis of the emergency ordinance continue to apply.

Why did the emergency ordinance in the version dated 19 March 2023 on the takeover of Credit Suisse mention that related documents were not subject to the Freedom of Information Act (FoIA)?

In the case at hand, there were exceptional secrecy considerations, in particular because of trade secrets and ongoing negotiations. It was important that the authorities receive all relevant information from the systemically important banks. The FoIA could have hampered this process, as the affected institutions might have been concerned that the authorities would have had to grant access to the information and documentation provided. This could have resulted in the institutions providing the relevant information in incomplete form or after a long delay, or not providing it at

all. In this regard, please refer also to the explanatory report on the ordinance (Art. 6 para. 3).

On 11 August 2023, the federal guarantees and loans issued under the ordinance were terminated. On 6 September 2023, the Federal Council decided to repeal Article 6 paragraph 3 of the emergency ordinance and to refrain from writing the provision into ordinary law.

Alternative scenarios

What other options did the Federal Council have and why did it reject them?

On 19 March 2023, there were several options available to solve the acute problems of Credit Suisse, including a takeover by another bank, nationalisation and restructuring in accordance with the TBTF regulations. After careful consideration, however, the Federal Council found the takeover of Credit Suisse by UBS to be the best overall solution for financial stability and the Swiss economy.

The alternatives to a takeover by UBS were:

- a) **Temporary public ownership:** temporary public ownership (TPO) of the entire Credit Suisse Group was not at the forefront during the preparatory work for regulatory and legal reasons, as well as due to risk considerations, and it was not pursued as a priority in view of the real possibility of a private takeover. Had the federal government taken over Credit Suisse, it would have had to assume all of the bank's risks and its management.
- b) **Restructuring of the bank as provided for in the TBTF regime,** including bail-in to absorb the necessary losses from the subsequent restructuring work: the massive loss of confidence in Credit Suisse was so severe before the weekend of 18 and 19 March that it was highly debatable whether another capital increase and restructuring could have restored the necessary confidence.
- c) **Bankruptcy** and triggering of the emergency plan: the bankruptcy of the financial group and the activation of the Swiss emergency plan to ensure the continuity of systemically important functions in Switzerland in particular would have been hugely destabilising for the markets in the prevailing circumstances. Moreover, it would have been extremely unclear whether the separated, surviving Swiss bank would have been able to regain market confidence in the long term in this situation.

Why was the Swiss business not spun off as provided for in the too-big-to-fail (TBTF) legislation?

The TBTF regulations stipulate that individual legal entities can be declared bankrupt in the event of a bank's impending insolvency. This would entail allowing the entire bank to fail and retaining only those bank functions which are systemically important for Switzerland.

The Federal Council and the supervisory authorities deemed this scenario to be much too risky in the given situation, where global financial markets were in turmoil.

There were two reasons for this:

1. First, in the extremely fragile environment at the time, it could have triggered an international financial crisis with massive repercussions for Switzerland as a business location and financial centre.
2. Second, client confidence in Credit Suisse had been severely eroded. It would have been unclear whether spinning off the Swiss business arm in this situation would have been able to regain market confidence in Credit Suisse (Schweiz) AG.

Regulation

Why were the existing regulations not sufficient?

The TBTF measures (increased capital and liquidity requirements, and improved resolvability) are suitable for lowering the likelihood of state intervention. The stability of the Swiss financial sector as a whole is also attributable to these measures. However, due to massive and rapid outflows of funds, confidence in Credit Suisse was eroded very quickly, despite it having sufficient capital and high liquidity for a prolonged period, and the bank was at risk of bankruptcy. Given the absence of a legal basis for a public liquidity backstop, it had to be enacted under emergency law in order to safeguard the stability of the Swiss economy and the financial system.

What further regulatory steps lie ahead?

The existing regulations will be continually reviewed and, if necessary, adapted to new developments. Specifically, in September 2023, the Federal Council adopted the dispatch to Parliament on the introduction of a public liquidity backstop into ordinary law. Moreover, the Federal Council brought higher liquidity requirements into force on 1 July 2022 for systemically important banks.

Independently of the work of Parliament, the Federal Council is planning a review of the events and an in-depth evaluation of the too-big-to-fail regulatory framework. What does this mean exactly?

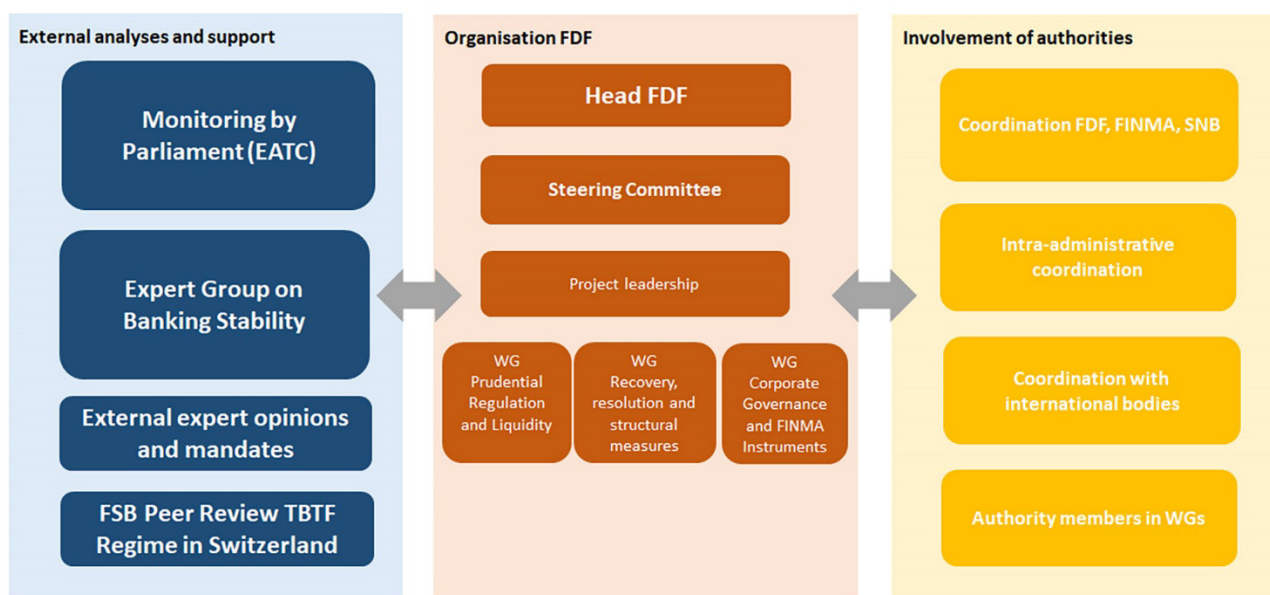
At the end of March 2023, the Federal Council decided to review the takeover of Credit Suisse by UBS and to evaluate the TBTF regulatory framework. The Federal Council based its decision on Article 52 of the Banking Act, according to which it is required to report regularly on systemically important banks. The next such report is due to be presented by the beginning of April 2024.

In connection with the preparation of the report, the Federal Department of Finance (FDF) established a working group: the expert group on banking stability submitted its report as mandated by the FDF. The report was published on the FDF website on 1 September 2023. See:

[Federal Department of Finance convenes group of experts on banking stability](#)

The report's findings are being incorporated into the FDF's ongoing work for the attention of the Federal Council.

Project setup TBTF report



Consequences for third parties

What effect did the state assistance have on dividends and bonuses?

Credit Suisse dividend payments were not allowed for the duration of the state support. The Federal Council also imposed restrictions with regard to remuneration packages, pursuant to Article 10a of the Banking Act.

Are private creditors of Credit Suisse also exposed to the risks of the takeover?

Yes. FINMA was provided with a clearer legal basis so that part of Credit Suisse's regulatory capital could be written off (private creditors are to share in the exposures to the tune of CHF 16 bn¹). This ensured that private measures were taken in addition to state measures.

Are deposits still safe?

Yes, deposits of up to CHF 100 000 are safe, even if the bank were to go bankrupt. The takeover of Credit Suisse by UBS and the public liquidity backstop boosted confidence in the bank's stability.

What would happen if, during a possible financial crisis, other systemically important banks got into financial difficulty?

There are no indications of this happening in Switzerland to date. However, the relevant regulations and instruments are in place.

¹ Correction of 20.03.2023: changed from "around CHF 17 bn" to "CHF 16 bn"

Employees and wages

What measures did the Federal Council take on 5 April 2023 with regard to variable remuneration at Credit Suisse?

As instructed by the Federal Council, the FDF issued an order stating that the variable remuneration still outstanding as at 23 May 2023 for the top three levels of management at Credit Suisse was to either be cancelled in full (Executive Board), reduced by 50% (members of management one level below the Executive Board) or reduced by 25% (members of management two levels below the Executive Board). This took account of the most senior managers' responsibility for the situation at Credit Suisse in a differentiated manner. Credit Suisse was also obliged to examine the possibility of recovering variable remuneration already paid out and to report to FINMA and the FDF on the matter. In addition, the variable remuneration due in 2023 was cancelled or reduced on a pro rata basis until the completion of the takeover. These measures affected around 1,000 employees and concerned CHF 62 million in variable remuneration.

05.04.2023 - Federal Council makes decisions on variable remuneration at Credit Suisse and UBS

Why did the federal government not cancel any variable remuneration at UBS despite the CHF 9 billion loss protection guarantee?

The federal guarantee was not required because UBS got into difficulty; instead, it was provided proactively to enable a solution to be found for Credit Suisse. If UBS could no longer offer a competitive remuneration system, there would have been a danger of this resulting in a considerable risk for operational stability and ultimately for the bank's entire business, which was something to be avoided.

However, UBS was required to establish a separate organisational unit for winding down the portfolio. Within this organisational unit, there was an obligation to implement incentive-based remuneration schemes for the employees charged with the realisation. The assets were to be managed in such a way that losses were minimised and realisation proceeds were maximised.