Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Press release

Date:
19 December 2023

Embargo:
19 December 2023, 9.30 a.m. CET

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FINMA publishes report and lessons learned from the Credit Suisse crisis

The Swiss Financial Market Supervisory Authority FINMA has today published its report on the Credit Suisse crisis. In this report, it analyses the development of Credit Suisse between 2008 and 2023 with regard to its strategy, business performance, management decisions, risk management and preparation for crises. It also examines FINMA's supervisory work with the bank. The key statements are as follows:

- **Owing to the inadequate implementation of its strategic focus areas, repeated scandals and management errors, Credit Suisse lost the confidence of its clients, investors and the markets. The resulting high level of withdrawals of client funds led to the risk of immediate insolvency in mid-March 2023.**

- **The Confederation, SNB and FINMA initiated decisive measures to safeguard the solvency of Credit Suisse and to support its takeover by UBS. The authorities thus achieved their goal of protecting the bank's creditors and ensuring financial stability.**

- **Long before the crisis, FINMA took far-reaching and invasive measures in the context of its supervisory activities to rectify the deficiencies, particularly in the bank's corporate governance and in its risk management and risk culture. From summer 2022 onwards, FINMA also asked the bank to take various measures to prepare for an emergency.**

- **FINMA draws a number of lessons in its report. On the one hand, it calls for a stronger legal basis, specifically instruments such as the Senior Managers Regime, the power to impose fines, and more stringent rules regarding corporate governance. On the other hand, FINMA will also adapt its supervisory approach in certain areas, and will step up its review of whether stabilisation measures are ready to implement.**

The disappearance of one of Switzerland's two large global banks was a traumatic event for the Swiss financial services sector. To assist with the appraisal of the crisis, FINMA carried out a comprehensive analysis and assessment of the background, the related supervisory activities, the acute phase of the crisis and the resulting need for change. This examines the development of the supervisory work at Credit Suisse between 2008 and 2023.

Following the completion of these analyses, FINMA has today published a report on the findings. It has already provided this to the Parliamentary Investigation Committee looking into the matter.

Credit Suisse failed due to shortcomings in its strategy and management

- The definition, implementation and monitoring of the strategy are the responsibility of the bank's Board of Directors. The Board made numerous strategic changes with the aim of downsizing the investment bank, reducing the volatility of its earnings, and focusing the business model more on asset management. These **strategic changes were not implemented consistently**. Earnings remained volatile both in the investment bank and in asset management.

- **Recurrent scandals undermined the bank's reputation**, weighed on its results and resulted in clients, investors and the market losing faith in it.

- **Credit Suisse's problems manifested themselves in a range of business areas and due to various risk types.** In almost all of these problems, serious deficiencies in risk management played a role. FINMA's measures targeted these deficiencies and tightened up checks and controls. FINMA also repeatedly criticised the bank's risk culture and went to the limits of its legal powers with its measures. Despite the – sometimes extensive – adjustments, over the years the bank's governing bodies were unable to find long-term overall solutions to the shortcomings in the bank's organisation identified by FINMA.

- **Even in years where the bank reported large losses, the variable remuneration remained high.** Credit Suisse's main shareholders made little use of the possibilities available to them to influence remuneration.

- **Reorganisations, high costs, fines and losses also eroded its capital base.** As a result, Credit Suisse was repeatedly forced to raise capital on the market.

- Credit Suisse satisfied the regulatory capital requirements. However, these were not enough to prevent the huge crisis of confidence. **The parent company, CS AG, had the weakest capital adequacy within the Group, which made it the weakest link in the chain.**

- Credit Suisse also complied with the regulatory requirements for liquidity, and held comfortable liquidity buffers in summer 2022. **However, the loss of confidence in the bank led to rapid, extensive liquidity outflows that were further exacerbated by the digital communication channels (digital bank run)** and ultimately brought the bank to the brink of insolvency.

Intensive supervisory work and crisis preparation at Credit Suisse

FINMA carried out extensive supervision of Credit Suisse within the framework of the applicable legal requirements. Since 2012 it has conducted 43 preliminary investigations of Credit Suisse for potential enforcement proceedings, issued nine reprimands, filed sixteen criminal charges, and completed eleven enforcement proceedings against the bank and three against individuals. Eleven of these fourteen proceedings took place in 2018 or after. In the process and within the scope of its authority, FINMA consistently informed Credit Suisse of risks, called for improvements, and imposed far-reaching measures. These included extensive capital and liquidity measures, interventions in the bank's governance and remuneration, and restrictions on business activities. In the period from 2018 to 2022 it also conducted 108 on-site supervisory reviews at Credit Suisse and recorded 382 points requiring action. In 113 of these points the risk was classed as high or critical. These figures and measures illustrate that FINMA exhausted its options and legal powers.

FINMA also recognised the potential risk of the bank's destabilisation at an early stage, and intensified its supervisory activities accordingly. Therefore, back in summer 2022 it asked the bank to put in place specific measures in preparation for a crisis, such as the sale of parts of the business, and later also the sale of the whole bank. For its part, FINMA simultaneously prepared for the possible restructuring of the bank. In March 2023, FINMA had prepared for the restructuring, so that this was available as an alternative scenario. However, the authorities came to the conclusion that the takeover of Credit Suisse by UBS was the fastest way to stabilise the situation and involved a lower risk.

FINMA draws lessons from the case of Credit Suisse

- **The authorities' crisis measures achieved their aim:** The measures taken by the authorities in March 2023 were effective and fulfilled the legal mandate. They ensured that creditors were protected and that the financial markets continued to function properly.

- **The legal basis for supervision reached its limits:** Due to the mounting problems and deficiencies, FINMA increasingly intensified its supervisory and enforcement activities at Credit Suisse over the past few years and instituted more and more incisive measures. It thus reached the limits of its legal options.

- **Increased obligation to take responsibility in the area of governance:** FINMA is in favour of extended options that would enable it to have more influence on the governance of supervised institutions. FINMA considers a Senior Managers Regime, powers to impose fines and the option of publishing enforcement proceedings on a regular basis in particular to be appropriate here. To enable FINMA to effectively intervene in remuneration systems, a more solid legal mandate is required.

- **Improve capital regulation:** In the area of capital requirements, the legal obligation to grant exemptions at the level of the specific institution led to the parent company being weakened. In addition, the regulatory handling of participations had a procyclical effect during the crisis. FINMA is therefore calling for stricter standards for regulation at the specific institution level in the context of a review of the "too big to fail" requirements.

- **Focus on additional capital charges:** FINMA ordered far-reaching additional capital charges to counter the increased risks from Credit Suisse's business activities. In future, FINMA will analyse the risks involved in strategy implementation or an inadequate control environment and the resulting potential for losses by financial institutions even more systematically, and will impose and disclose additional capital charges if necessary. It should be examined whether this will also require a change to the regulatory principles.

- **Focus on feasibility of recovery and resolution measures:** Some of the measures in the recovery plan reviewed and approved by FINMA could not be implemented as planned during the current crisis. In future, FINMA will therefore place a stronger focus on ensuring that the measures can be implemented effectively and consider tightening up its approval practice. It will also adapt the resolution plan to include faster bank runs and more crisis scenarios.

Thomas Hirschi, head of the crisis unit and FINMA's Banks division, commented as follows on the presentation of the report: "FINMA used the full range of tools available to it, and identified the risk of possible destabilisation at Credit Suisse at an early stage. Although its actions had an effect, they were unable to overcome the causes of the loss of confidence, such as shortcomings in strategy implementation and in risk management. However, in line with their legal mandate, the authorities ensured that creditors and financial stability were protected in the bank's market exit."

Birgit Rutishauser, CEO ad interim, stated: "We want to actively contribute to the assessment of the CS crisis, and have therefore created further transparency with an extensive report on the events and lessons learned. We will now be able to look to the future on this basis. We will integrate the lessons learned from this crisis into our supervisory work and put them to the regulatory committees."

Marlene Amstad, Chair of FINMA's Board of Directors, emphasised: "We are committed to ensuring that supervisors hold even better cards. The specific case of Credit Suisse illustrates both the possibilities and the limits of supervision. Both are prescribed by the legal framework. It is clear that the state of the Swiss financial centre in five or ten years' time will be largely determined by whether the legal basis for supervision is strengthened today."

About FINMA's supervisory work

As an independent supervisory authority for the Swiss financial market, FINMA's statutory task is to protect creditors, investors and policyholders and ensure the proper functioning of the financial markets. FINMA's remit thus comprises authorisation, supervision and – where necessary – the enforcement of supervisory law.

With its licensing decisions, supervisory work and enforcement activities, FINMA consistently pursues a clear purpose: to protect deposits and ensure that contracts and market conduct are transparent and are not misused. In its role as supervisor, FINMA adopts a consistently risk-oriented approach designed to ensure continuity and predictability. FINMA's employees fulfil this task with great expertise on the basis of eight different financial market laws, which are constantly changing owing to the dynamic and innovative nature of the financial sector.

With its compact and efficient structure, FINMA supervises Switzerland's significant financial market consisting of more than 500 banks, 180 insurance companies, 400 asset managers and 150 financial market infrastructures. Its 600 employees consciously focus their work on the relevant risks. FINMA exercises its scope for discretion and acts in proportion to the risk assessment.

About large bank supervision by FINMA

Up to summer 2023, direct large bank supervision was performed primarily by two dedicated supervisory teams. These two teams were supported by additional specialists in the areas of on-site supervisory reviews, benchmark analyses, authorisations, risk management, capital adequacy and planning, liquidity, IT and cyber risks, and governance. In total, an average of about 40 of the 112.5 full-time positions in the Banks division were deployed to supervise UBS and Credit Suisse in 2020–2022.

In supervising the banks, FINMA regularly obtains data and requires them to submit documentation. In some cases the data is obtained together with the Swiss National Bank, in other cases FINMA obtains it directly. Data sets consist of prudential key figures (liquidity, capital) as well as ad hoc surveys regarding specific risks. The kind of internal bank reports that are requested include the risk and compliance reports, internal audit reports as well as documents from meetings of the Executive Board or Board of Directors. FINMA also takes due account of market data (e.g. credit ratings, prices of shares, bonds or credit default swaps), reports by equity and bond analysts or from other external sources such as media reports (including social media). FINMA regularly holds talks with the Board of Directors or Executive Board and with other representatives of divisions, supervisory bodies or internal auditors, subsequently informing the bank concerned in writing of its conclusions and expectations. Moreover, it conducted around 20 extensive on-site supervisory reviews per large bank each year.