Press release

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Archegos: FINMA concludes proceedings against Credit Suisse

In the course of its enforcement proceedings, the Swiss Financial Market Supervisory Authority FINMA found that Credit Suisse had seriously and systematically violated financial market law in the context of its business relationship with the Archegos family office. FINMA is ordering corrective measures from its legal successor, UBS. In addition, FINMA has opened enforcement proceedings against a former Credit Suisse manager. At the same time as FINMA, the authorities in the USA and the UK are also announcing their findings in this matter.

In March 2021, several investment banks incurred large losses due to the collapse of the Archegos hedge fund. Credit Suisse suffered the biggest loss of over USD 5 billion. FINMA took various immediate risk-reducing measures in April 2021 and opened enforcement proceedings (see press release).

Risks in the hedge fund business

Among other things, the Archegos family office took synthetic (i.e. without owning the corresponding stock) stock positions ("long" or "short" depending on price expectations) with investment banks such as Credit Suisse. These are instruments that replicate the performance of an underlying asset, for example, a share (total return swaps). The Credit Suisse investment bank undertook, for example, to pay Archegos any increase in the value of the synthetically held positions. Conversely, Archegos had to bear losses or provide collateral when their positions suffered a decline in value. This type of business is typically conducted by hedge funds.

In order not to incur losses on such transactions itself, Credit Suisse hedged against market risks. Among other things, it thus bought or sold actual shares on the capital markets in its own name, in parallel to the synthetic positions taken by Archegos. Profits and losses should thus have been balanced automatically. The aim of investment banks such as Credit Suisse is to generate income in any case, regardless of the success of the hedge fund's bet and the price development, thanks to the fees incurred.

Large positions led to losses in fire sale

Archegos built up very large positions in a few equity securities. When the price of some of these securities dropped, Archegos no longer had the necessary funds to compensate for these losses in value. In this constellation, Credit Suisse itself had to sell the shares that it had previously acquired in its own name as a hedge. In doing so, it suffered massive losses due to share prices having fallen sharply in the meantime. Due to the internal organisation of Credit Suisse, these losses were incurred by the London entity, even though most of the events had taken place in New York.

Various organisational deficiencies

During the proceedings, FINMA identified the following deficiencies at Credit Suisse:

- **Too big a position and risks:** Credit Suisse's own position due to the relationship with Archegos was extremely high for months. It had a value of USD 24 billion in March 2021. This corresponded to four times the position of the next largest hedge fund client and more than half the equity of Credit Suisse Group AG. The bank was not able to adequately manage the risks associated with this position.

- **No involvement of responsible members of the executive board:** Despite the huge size of this client position and the associated risks, the members of the bank's executive board were not informed of the facts. There was no requirement that responsible executive board members address significant and risky business relationships on their own initiative as standard.

- **Insufficient response to limit overruns:** Credit Suisse's risk monitoring regularly indicated that applicable limits had been exceeded in the relationship with Archegos and that the bank was therefore exposed to high risk of loss. However, the responsible employees acted in favour of the client. Overruns were insufficiently objected to. On the one hand, the bank made far too low additional demands on Archegos. On the other hand, exceeded limits were simply increased repeatedly. Thus, the overruns were reduced, but the actual risks of loss increased.

- **Concentrated risks instead of hedging:** Archegos took large positions with only a few issuers. Credit Suisse built up parallel stocks in these securities as a hedge, which in some cases led to significant market shares in these securities. Overall, the bank incurred enormous and concentrated risks of loss, which materialised in the subsequent fire sale. The bank took completely insufficient account of the fact that the collateral could not fulfil its purpose in an emergency because it was not diversified.

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- **Payout on the verge of collapse:** Two weeks before the collapse of Archegos, its positions still had a high value. Archegos therefore demanded that Credit Suisse pay out USD 2.4 billion. The bank paid this amount based on the contract with Archegos. It is true that certain employees assumed that the bank had been contractually obliged to make these payments. However, there are no indications that the bank actually examined the possibility internally of not having to make these payments or considered suspending them until additional collateral was provided or offsetting them against such collateral in order to minimise its own risks.

Organisation and risk management insufficient

As a result, there were serious deficiencies at Credit Suisse during the period under review with regard to the requirements of appropriate administrative organisation within the meaning of the Banking Act. In particular, the bank was unable to adequately identify, limit and monitor the significant risks associated with Archegos. The bank has thus seriously and systematically violated the organisational requirements under banking law.

Limits for own positions and adjustments to the compensation system

FINMA is ordering corrective measures directed at Credit Suisse AG, which continues to exist, and UBS Group AG, as the legal successor to the Credit Suisse Group AG, as a result of the merger of Credit Suisse and UBS.

- FINMA requires UBS to apply its restrictions on its own positions relating to individual clients throughout the financial group.

- The compensation system of the entire financial group must provide for bonus allocation criteria that take into account risk appetite. Therefore, for employees with particular risk exposure, a control function must assess and record the risks taken before the bonus is determined. UBS already has corresponding rules in place, which FINMA is now ordering to be legally binding.

Proceedings against an individual

FINMA has also opened enforcement proceedings against a former Credit Suisse manager. FINMA is not commenting on the identity of this person or details of the proceedings.

Good coordination with foreign authorities

FINMA acknowledges the good cooperation in the enforcement proceedings with the Federal Reserve Board (USA) and the Prudential Regulation Authority (UK). The US and UK authorities are also publishing the results of their investigations in this case. They imposed fines of USD 268.5 million and GBP 87 million respectively.