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

Media event on 5 April 2023 in Bern

Urban Angehrn, FINMA CEO

Address

(The spoken text will prevail in the event of differences)

Ladies and Gentlemen

After our Chair's remarks on the history of FINMA's involvement with Credit Suisse, the "too big to fail" legislation and FINMA's toolbox, I would like to discuss the options that were available to us on 19 March. I also want to address the issue of the size of the new UBS and provide an outlook.

1 Options on 19 March 2023

The authorities, specifically the Federal Ministry of Finance FDF, the Swiss National Bank SNB and the Swiss Financial Market Supervisory Authority FINMA had been working in depth on Credit Suisse since the autumn of 2022. We thoroughly prepared a number of different options on a precautionary basis.

The situation escalated in mid-March 2023. The immediate trigger was turmoil at certain US regional banks.

In those days it became clear to the Steering Committee of the FDF, FINMA and the SNB that there was a real risk of Credit Suisse becoming illiquid. Everyone knew that we had to act. And we have acted.

Based on the preparatory work, the supervisory authorities believed there were three realistic options to resolve the acute crisis:

a. Resolution of Credit Suisse directed by FINMA.

b. Nationalisation of Credit Suisse by the Swiss Confederation.

c. A merger between Credit Suisse and UBS.

We also prepared a fourth option, but de-prioritised it due to the drastic impact it would have:

d. Bankruptcy and emergency plan for the Swiss entity.

Laupenstrasse 27
3003 Bern
Tel. +41 (0)31 327 91 00
Fax +41 (0)31 327 91 01
www.finma.ch

The resolution option

FINMA can direct a resolution if a bank is in a very critical situation, as Credit Suisse was during the weekend of 18/19 March 2023.

What happens in a resolution? The main objective is to directly protect all of the bank's services for its customers. The bank should be able to continue to process payments, grant loans etc.

In a resolution the bank's strategy is refocused to shrink the bank to a size at which it will be able to operate sustainably.

At first sight this can look like an appealing option. However, it will only work if the bank's capital base is radically strengthened immediately <u>and</u> its liquidity is secured. In a resolution the SNB would also have to provide liquidity assistance loans backed by a federal default guarantee, i.e. the public liquidity backstop (PLB).

A resolution would affect a large volume of securities issued by Credit Suisse. In particular, it would include the bail-in bonds, which are rated investment grade and are held by a wide range of investors.

In Credit Suisse's case the following interventions in the bank's capital would have been required in a resolution:

- The equity is written down to zero. All current shareholders lose their invested capital and cease to be owners of the bank.
- The Additional Tier 1 (AT1) bonds are written down to zero. The AT1 bondholders lose their entire investment.
- The other bondholders of the holding company Credit Suisse Group are bailed in: their bonds are converted into equity and as a result they now own 100% of the bank.

The write-down and conversion would have boosted Credit Suisse Group's capital by around CHF 73 billion, consisting of around CHF 16 billion by writing down the AT1 bonds and CHF 57 billion from the bail-in bonds.

FINMA has the power to order a resolution and in so doing takes control of the bank. It appoints a special agent and partly or completely replaces the board of directors and executive management.

The surviving bank would still have been Credit Suisse, but there can be little doubt that the resolution would have further damaged its reputation. While the additional capital would have provided a buffer and the public liquidity backstop would have secured the bank's liquidity position, there would have been doubts about whether confidence can be restored rapidly in a difficult market environment.

The nationalisation option

Under the nationalisation option, the Federal Council would have made the Swiss Confederation the sole shareholder in Credit Suisse. This option was rejected on risk and legal grounds and out of a preference for a private sector solution, as it would have involved the federal government taking over the running of the bank and assuming all of its risks.

The bank would also have continued to operate as Credit Suisse in this scenario. Again, its liquidity would have to have been ensured by the SNB and the federal government.

The merger option

A merger of Credit Suisse and UBS also maintains all of Credit Suisse's services.

The federal government devised a package of measures to facilitate the merger. These included bolstering CS's capital by writing down the AT1 bonds. But in contrast to the resolution option, the other bondholders in the holding company Credit Suisse Group are not bailed in.

An important difference between a resolution and a merger is the expected impact on the financial markets, particularly in the case at hand.

The advantage of the merger option is that in UBS, a robustly capitalised and well organised bank will operate Credit Suisse with all the risks and opportunities this entails. This builds considerable confidence in the marketplace.

Why the merger option was preferred

After carefully weighing up the advantages and disadvantages and the potential upsides and downsides, everyone involved came to the same conclusion. In this specific situation a takeover of Credit Suisse by UBS was the best option available. The merger will stabilise the situation and may prevent a crisis from spreading through the financial sector.

As a global systemically important institution, Credit Suisse is not just any bank. The nature of the bank's business means it is highly interconnected with other market participants, both in Switzerland and globally.

The current fragile state of the financial markets due to the shift to monetary tightening in 2022, the uncertain economic outlook, the crisis at certain banks in the US and the whole geopolitical backdrop were also relevant to our decision. There was a high probability that the resolution of a global systemically important bank would have led to contagion effects and jeopardised financial stability in Switzerland and globally.

The bankruptcy and emergency plan option

As I mentioned at the outset, a fourth option – bankruptcy and emergency plan – had also been prepared but was de-prioritised early on due to its high tangible and intangible costs.

There are several misconceptions about the emergency plan in my view. While it may sound like a ready-made solution, it is only deployed where no other option has the prospect of achieving the urgently needed stabilisation.

What would have happened to Credit Suisse if the bankruptcy and emergency plan option had been chosen? The holding company, Credit Suisse Group, would have disappeared, as would the parent bank Credit Suisse AG with all of its branches. The only part of the once proud ocean liner Credit Suisse to remain in Switzerland would be the lifeboat Credit Suisse (Schweiz) AG, due to its systemic importance here.

Outside of this lifeboat all payments would be stopped and all customer accounts blocked. Only the lifeboat itself would survive. The parent bank Credit Suisse AG would have gone under – a Swiss bank with total assets of over CHF 350 billion and ongoing business also running into many billions.

It is not difficult to imagine the disastrous impact the bankruptcy of a bank and wealth manager as large as Credit Suisse AG would have had on Switzerland's financial centre and private banking industry. Many other Swiss banks would probably have faced a run on deposits, as Credit Suisse itself did in the fourth quarter of 2022.

Initiating the emergency plan would have met the narrow objective of rescuing Credit Suisse's systemically important functions in Switzerland, including payments and lending to the economy. But the damage to the Swiss economy, financial centre and Switzerland's reputation would have been enormous, with unquantifiable effects on tax revenues and jobs. As other options were on the table, triggering bankruptcy and the emergency plan would not have been in keeping with the principle of proportionality.

2 The size of the new UBS

The merger of UBS and Credit Suisse will create a single very large bank, which will naturally remain globally systemically important.

Particularly in Switzerland, there has been widespread political and media discussion of this issue in recent days. One important point is often forgotten in this debate, however. As a proportion of Switzerland's GDP, UBS will actually only be half the size it was before 2008, even after the merger with CS!

In Switzerland's "too big to fail" regime, banks' capital requirements grow progressively with a bank's size. In other words a bank that is double the size has to hold more than double the capital. After an appropriate transition period, these higher capital requirements will apply to the new UBS. FINMA will monitor and enforce these capital requirements.

The revised Liquidity Ordinance enacted by the Federal Council as of 1 July 2022 also applies additional institution-specific liquidity requirements to systemically important banks. These requirements, which will apply from 1 January 2024, comprehensively cover UBS's liquidity risks. They will be calibrated and enforced by FINMA.

A further important point is that size is not the only variable – there are qualitative as well as quantitative issues to consider, for example the bank's strategy. The bank's strategy is set by the board of directors and implemented by management. It is not determined by FINMA, since we do not run the banks. Our role is to ensure that the banks adhere to the laws and regulations enacted by the Swiss parliament and the Federal Council.

UBS has clearly enunciated a strategy in which the investment bank will account for less than a quarter of the bank's overall risk. FINMA has taken note of these strategic plans, which we believe are well-founded.

3 Outlook

The next critical milestone is for the merger of UBS and Credit Suisse to be formally concluded. The approval of a range of supervisors in Switzerland and abroad will be needed for it to proceed.

We have already achieved a number of goals. For example, FINMA as the supervisory authority has approved the merger. And two key regulators in the US Federal Reserve and UK Prudential Regulation Authority have indicated that they will seek to deal with it expeditiously. Thanks to our solid cooperation with these authorities we were already able to communicate this on 19 March.

UBS and CS are already working on integrating the two banks.

4 Summary

In summary, I would like to emphasise three points:

- The merger of Credit Suisse and UBS was the best possible solution. It was decided on the basis of carefully prepared options. The authorities are united behind it.

- Triggering the emergency plan would have met its narrow objective, but at huge cost to the Swiss economy, jobs and tax revenues.

- UBS is a robustly capitalised and well-organised bank, but will become even larger through the merger. FINMA will closely monitor adherence to all supervisory requirements. This will be a top priority for FINMA in the coming years.

Thank you for attending our media event today. You now have an opportunity to ask questions about the issues we have discussed.