Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Department of Finance FDF

23.03.2023 (updated version)

FAQ Credit Suisse

What will be the effect of the takeover of Credit Suisse by UBS?

The private takeover of Credit Suisse by UBS, supported by a public liquidity backstop, will strengthen confidence in the financial system and create stability for the Swiss economy, as well as the Swiss and international financial system. All of the foreign supervisory authorities involved view the Swiss authorities' action as appropriate. It will also provide reassurance to international financial markets.

Why is state liquidity assistance needed and what form does 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.

What liquidity assistance is available, what is the additional liquidity assistance comprised of, and what does the state guarantee cover?

Banks have to cover their liquidity needs primarily by means of their own holdings of liquid assets and by sourcing liquidity from the market. Consequently, they have to build up sufficient liquidity during the good times in compliance with the minimum requirements anchored in the Liquidity Ordinance. Relative to other banks, systemically important banks are required to hold additional liquidity buffers (TBTF liquidity requirements).[1]

However, even with these TBTF liquidity requirements, situations are conceivable in which a systemically important bank's own liquid assets are not sufficient to cover its liquidity needs. As a second step, therefore, additional liquidity can be provided via the SNB's emergency liquidity assistance (ELA) facility, provided that the prerequisites are met. But ELA is available only if suitable collateral accepted by the SNB is provided.

The package of measures adopted allows the SNB to grant liquidity assistance loans that go beyond ELA and that are protected by preferential rights in bankruptcy proceedings. The SNB can also grant additional liquidity assistance loans in the amount of CHF 100 billion which are covered by preferential rights in any bankruptcy proceedings. Moreover, any remaining SNB loss after the bankruptcy proceedings have been completed is covered by a federal default guarantee.

[1] The requirements concerning additional liquidity buffers for SIBs came into force on 1 July 2022. SIBs have to fulfil the basic requirements and the institution-specific additional requirements by the end of 2023.

What exactly is meant by preferential rights in bankruptcy proceedings?

In the event of bankruptcy, SNB claims arising from additional liquidity assistance loans and liquidity assistance loans with a federal default guarantee are assigned to the second bankruptcy class and are thus satisfied from the bankruptcy estate immediately after the first class (including employee salary and pension fund claims). 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.

Other states also have this liquidity assistance. What is Switzerland's position in this respect?

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 because Switzerland does not have a PLB anchored in law. According to the instructions issued by the Federal Council to the Federal Department of Finance (FDF) on 11 March 2022, a consultation draft for the introduction of a PLB to strengthen financial sector stability is to be prepared by mid-2023.

Why is the Federal Council providing a federal guarantee to support UBS in bearing losses arising from the takeover of Credit Suisse?

In addition to valuable assets, UBS is also taking over a portfolio of difficult-to-assess assets from Credit Suisse. UBS will wind down this portfolio over time. Losses may occur in the process. UBS is prepared to bear a large initial portion of such losses. Only after UBS has borne losses will a further portion of the losses be covered by the federal loss protection guarantee.

How is the loss guarantee for UBS structured?

To enable UBS to take over Credit Suisse, the federal government is providing a loss guarantee of a maximum of CHF 9 billion for a clearly defined part of the portfolio. This will be activated if losses are actually incurred on this portfolio. In that eventuality, UBS would assume the first CHF 5 billion, the federal government the next CHF 9 billion.

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

Although the existing 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 is still in the pipeline. In view of the severe market turmoil Credit Suisse was facing, the Federal Council has now 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.

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

a) State liquidity assistance for Credit Suisse, which is well-capitalised but struggling in the market, with huge uncertainty as to whether this would restore financial market confidence

b) Temporary public ownership, which was rejected in view of the real possibility of a private takeover

c) Bankruptcy, with unforeseeable consequences for the Swiss economy and the global financial system.

Why were the existing regulations not sufficient?

The too-big-to-fail 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, following massive and rapid outflows of funds, confidence in Credit Suisse has been eroded very quickly, despite it having sufficient capital and high liquidity for a prolonged period, and the bank is at risk of bankruptcy. While the possibility of a public liquidity backstop is in the pipeline in Swiss legislation, it is not yet in force. Therefore, it had to be enacted under emergency law in order to safeguard the stability of the Swiss economy and the financial system.

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

Credit Suisse dividend payments are not allowed for the duration of the state support. The Federal Council has also imposed restrictions with regard to remuneration packages, pursuant to Article 10a of the Banking Act, whereby the payment of variable remuneration may be wholly or partially prohibited.

What would Credit Suisse bankruptcy have brought about?

The bankruptcy of a systemically important bank would jeopardise and destabilise Switzerland's liquidity supply and payment system. Consumer spending and investment in Switzerland would be drastically reduced, thereby causing significant damage to the country's economy. In the particular case of an internationally active systemically important bank, such a bank's bankruptcy would erode the confidence of international clients and investors in the Swiss financial centre as a whole, and thus considerably weaken Switzerland's position as an international wealth management location in the long term. That would in turn have further major, long-lasting repercussions for jobs, value creation and tax receipts in Switzerland.

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

Yes. FINMA has been provided with a clearer legal basis so that part of Credit Suisse's regulatory capital can be written off (private creditors are to share in the exposures to the tune of CHF 16 bn[2]). This ensures that private measures are taken in addition to state measures.

[2] Correction of 20.03.2023: changed from "around CHF 17 bn" to "CHF 16 bn"

Why is the approval of the Finance Delegation (FinDel) required?

In cases of urgency, the Finance Delegation grants the Federal Council approval for guarantee credits.

What further regulatory steps lie ahead?

The existing regulations will be continually reviewed and, if necessary, adapted to new developments. Specifically, the introduction of a public liquidity backstop is being prepared. Moreover, even higher liquidity requirements had already been decided for systemically important banks. These came into force on 1 July 2022 and must be met by the end of 2023.

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 will boost 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.

Are there any financial risks for taxpayers as a result of the public liquidity backstop?

The Federal Council has taken precautions to minimise the risk for the Confederation. The SNB has been granted preferential rights in bankruptcy proceedings for the liquidity assistance loans secured by the federal government. Furthermore, any remaining risks are to be offset. Credit Suisse is thus required to pay a risk premium to both the federal government and the SNB, a commitment premium to the federal government for providing the default guarantee, and interest to the SNB. Together with the preferential rights in bankruptcy proceedings, this means that the Confederation's default risk exposure is low.

Why is the TBTF legislation not being applied, with a spin-off of the Swiss business arm?

A spin-off of the Swiss business arm would entail allowing the entire bank to fail and retaining only those bank functions which are systemically important for Switzerland.

This scenario was deemed far too risky by the Federal Council and the supervisory authorities in the current situation where global financial markets are in turmoil.

There are two reasons for this:

1. First, in the current, extremely fragile environment, it could have triggered an international financial crisis. This would have had massive repercussions for Switzerland as a business location and financial centre.

2. Second, client confidence in Credit Suisse had unfortunately been eroded to such an extent that implementing the emergency plan would have carried considerable risks for the Swiss business arm as well.

However, important parts of the TBTF regime have also proved to be very effective. It is only because of the stricter capital and liquidity requirements that Credit Suisse was able to survive some of the turbulence at all. But in this case, we reached a point where the loss of confidence could no longer be stopped.

The Federal Council plans to submit 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 6 months if no dispatch had been submitted to Parliament in the meantime (Art. 7 of the GAOA). For reasons of legal certainty, specific measures that are taken on the basis of the emergency ordinance will of course continue to apply.

The Confederation has given a CHF 100 billion guarantee to the SNB, and a CHF 9 billion guarantee to UBS. How will these amounts be recognised in the federal accounts?

These are two guarantee credits which go beyond the budget year. As their name suggests, they are commitment credits which will be drawn down only if there is a risk of default by CS or if the Confederation incurs losses. Only then would the Federal Council propose whether these credits are to be recognised as ordinary or extraordinary items in the accounts.

On 21 March 2023, the Federal Department of Finance (FDF) issued an order to Credit Suisse to temporarily suspend certain variable salary components. What does this actually entail?

So-called deferred variable remuneration, for example share awards, may not be paid out for the time being. However, immediate cash awards that have already been granted are still permitted. In addition, the Federal Council has instructed the FDF to propose further measures with respect to variable remuneration for the financial years up to 2022 and beyond.

How many employees are affected by this and how high are the suspended amounts?

The FDF does not have any corresponding figures. Generally speaking, the higher the hierarchical level, the greater the proportion of deferred variable remuneration. The Credit Suisse report on compensation for 2022 contains general figures on the bank's remuneration system.