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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 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 view the Swiss authorities' action as appropriate. It will also provide reassurance to international financial markets.

What would Credit Suisse bankruptcy have brought about?

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. As a result, SMEs and households throughout Switzerland would find it almost impossible to function economically. The Swiss economy would thus 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.

Will the Confederation also generate receipts with the package of measures?

Yes. Credit Suisse has to pay a commitment premium for the CHF 100 billion federal default guarantee for additional liquidity assistance loans from the SNB to Credit Suisse. This amounts to 0.25% per year on the amount of the CHF 100 billion default guarantee. In addition, there is a risk premium of 1.5% on the funds actually drawn down.

The commitment premium is due even if Credit Suisse has not yet drawn any money from these SNB liquidity assistance loans. It is payable from 20 March 2023.

However, the commitment premium will not be paid out until the credit agreement with the SNB is terminated. The rate of 0.25% on CHF 100 billion corresponds to annual receipts of CHF 250 million. If the term of the credit agreement is shorter than one year, only the corresponding share will be due.

In the extraordinary session on Credit Suisse, the Council of States approved the guarantee credits totalling CHF 109 billion, whereas the National Council rejected them twice. The proposal was abandoned as a result. What impact will this decision have?

This decision has no impact on the takeover of Credit Suisse decided on 19 March. Due to the urgency of the matter, the Finance Delegation already gave its binding approval for these guarantee credits on 19 March 2023 on behalf of Parliament.

The funds are already fully committed, as the federal default guarantee provided to the SNB and the federal guarantee for UBS are part of the agreement on the takeover of Credit Suisse by UBS. The contract between the Confederation and the SNB on the default guarantee has already been concluded. The guarantee for UBS is still being negotiated, but it is part of the overall solution.

Although the decision has no impact on the guarantees, the FDF nonetheless takes such political signals seriously. During the negotiations with UBS, the federal government will take this political signal into account, while simultaneously taking care not to jeopardise the takeover by UBS.

However, the Federal Council will also take account of this signal as regards the work still to be done. At the same time as it approved the dispatch, the Federal Council decided on a thorough review of the events that led to UBS taking over Credit Suisse, and an in-depth evaluation of the too-big-to-fail regulations. This evaluation will involve external experts and will, as far as possible, address the questions submitted as postulates to the Federal Council. The results are expected to be submitted to Parliament within 12 months as part of the Federal Council's next report on systemically important banks pursuant to Article 52 of the Banking Act.

In accordance with Article 34 paragraph 2 of the Federal Act on Safeguarding Democracy, the Rule of Law and the Capacity to Act in Extraordinary Situations, urgent expenses decided by the Federal Council with the consent of the Finance Delegation must be submitted to Parliament for retroactive approval. Would this not imply that parliamentary approval is an absolute requirement?

The conclusion that parliamentary approval is absolutely necessary because the credits must be submitted to Parliament for retroactive approval is false. The Federal Act of 17 December 2010 on Safeguarding Democracy, the Rule of Law and the Capacity to Act in Extraordinary Situations has no independent significance. The Act was mainly used to amend the Financial Budget Act. Of course, the FDF and the Federal Council take the legislation in force as a basis, including the amendments in Article 34 of the Financial Budget Act. A distinction needs to be made between the formal act of submitting a credit to Parliament for retroactive approval – which is a requirement – and the effects of a retroactive non-approval. Non-approval has no legal effect. [An assessment by the Secretariat of the Finance Committees](#) came to

the same conclusion. Due to the urgency of the matter, the Finance Delegation already gave its binding approval for these guarantee credits on 19 March 2023 on behalf of Parliament. The funds are already fully committed, as the federal default guarantee provided to the SNB and the federal guarantee for UBS are part of the agreement on the takeover of Credit Suisse by UBS. The contract between the Confederation and the SNB on the default guarantee has already been concluded. The guarantee for UBS is still being negotiated, but it is part of the overall solution. Although Parliament's decision has no impact on the guarantees, the FDF nonetheless takes such political signals seriously. During the negotiations with UBS, the federal government will take this political signal into account, while simultaneously taking care not to jeopardise the takeover by UBS.

Credit Suisse has reported substantial profits for the first quarter of 2023. What does the federal government have to say about this in view of the federal guarantees that have been provided?

Credit Suisse's positive quarterly results are a direct consequence of the measures adopted by the authorities on 19 March 2023 to ensure the stability of the financial system. The complete writedown of additional Tier 1 (AT1) capital ordered by the Swiss Financial Market Supervisory Authority FINMA reduced Credit Suisse's debt burden by a large amount in the billions, which is reflected in accounting terms as extraordinary income in the first-quarter statement of operations. This measure was necessary in order to enable the takeover by UBS and thus create stability and prevent a bankruptcy with unforeseeable consequences.

Excluding the one-off special factor in the first quarter of 2023, Credit Suisse still reported a loss from current operations.

The positive effects for the public sector are twofold:

- **Taxes:** the reduction in the losses recognised means that a smaller amount of losses from previous business years can be offset against the merged bank's net profits in future years. This may lead to higher tax receipts for the public sector in the future.
- **Default guarantee:** lower losses mean that it is less likely that the state guarantees provided to the SNB will have to be utilised. This is in taxpayers' interest.

Additional liquidity assistance

How are 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). The preferential rights in bankruptcy proceedings and the strict conditions significantly reduce the risk for the Confederation.

- 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 do not fit UBS's strategy. The first CHF 5 billion of any losses on these positions will be borne by UBS in any case.

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.

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. The liquidity assistance would also have been necessary under alternative scenarios such as temporary public ownership.

What exactly is meant by preferential rights in bankruptcy proceedings?

In the event of bankruptcy, outstanding loans from the SNB 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. In addition, the borrower is required to pay a commitment premium and a risk premium.

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 significantly reduced.

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.

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?

The two guarantee credits do not immediately result in any financial burden. The federal budget will be impacted only if a loss becomes foreseeable. The Confederation will have to set aside a provision if the probability of a loss is high enough and the loss can be estimated.

Loss guarantee

Why was this loss protection agreement 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 shoulders losses of at least CHF 5 billion. The loss protection agreement now concluded governs the specifics of this guarantee.

Which assets are covered by the guarantee?

The portfolio of assets to be liquidated consists essentially of Credit Suisse assets that do not fit UBS's strategy. The portfolio mainly includes assets of Credit Suisse's Non-Core Unit (NCU), i.e. assets that Credit Suisse already intended to wind down. The guaranteed assets are specifically identified or can be determined based on clear criteria. This means that the portfolio covered by the guarantee is conclusively defined.

UBS intends to unwind these assets in the coming months or years, which may result in losses for UBS depending on market developments and the risk profile of the assets, as well as the chosen realisation strategy.

What is the volume of the portfolio covered by the guarantee and which assets does it include exactly?

The guarantee covers a volume of around CHF 44 billion, which corresponds to approximately 3% of the combined assets of the merged UBS Group. The assets are mainly derivatives, loans, legacy assets and structured products. Examples of these four categories are as follows:

- **Derivatives:** instruments used for hedging interest rate or currency risks
- **Loans:** credit provided to companies or private individuals
- **Legacy assets** (non-strategic products): non-performing loans and long-dated forex options
- **Structured products:** pools of financial assets (e.g. mortgages) which are combined to produce a package of securities

The specific portfolio details are confidential. Early disclosure of the contents of the portfolio would enable other market players to adjust to the upcoming realisation of these assets and thus make it more difficult for UBS to minimise the losses to the greatest extent possible when winding them down. UBS will report on the portfolio in more detail when it publishes its second-quarter results.

How will the losses covered by the federal government's guarantee arise?

The assets covered by the loss guarantee will be revalued after the takeover by UBS (in accordance with UBS accounting standards; IFRS as opposed to US GAAP at CS). Losses arising from this revaluation are not covered by the loss guarantee and will have to be borne by UBS. A relevant loss in terms of the guarantee will arise if thereafter it is only possible to realise these assets at a lower price relative to the revaluation. This may be the case if the relevant markets for the assets in question experience a downturn in the meantime, or if the recoverability of assets declines because the debtor of a loan gets into difficulty, for example.

Since UBS has to shoulder the first CHF 5 billion of such losses itself, it has a strong incentive to prevent realisation losses by means of good management of these assets and well-executed divestiture processes.

What losses does the federal government anticipate?

The valuations are expected to be available in the third quarter of 2023. Along with the valuations, UBS will also prepare business plans with details on exit options, loss budgets and loss estimates based on various scenarios. The extent of the potential loss is highly dependent on the actual wind-down of the assets concerned and market developments (e.g. interest rate trends). Consequently, it is not yet possible to estimate the probability of the guarantee being drawn and the amount involved.

When will the amount of the losses be known and how long will the wind-down take?

The relevant loss under the guarantee will not be known until the final realisation of all guaranteed assets. The guarantee cannot be drawn until the entire portfolio it covers has been realised. Only at that time will it be known whether losses will be incurred and if so, how high they will be and whether they will exceed the loss of CHF 5 billion to be borne by UBS. There is no set end date for the wind-down. This is because some of the assets in the portfolio to be wound down are very long-dated and pushing ahead with the wind-down too quickly tends to increase rather than decrease realisation losses. For this reason, after five years, UBS may elect to use a contractually defined mechanism to exclude the residual assets in the portfolio from the guarantee in order to be able to draw on the guarantee.

What has been agreed with UBS regarding losses in excess of CHF 14 billion?

The agreement contains no statements on any federal government participation in losses exceeding CHF 14 billion. Without a legal basis, the federal government cannot commit to assuming losses in excess of CHF 9 billion. This would require a legal basis as well as parliamentary approval of a corresponding guarantee credit.

How much does UBS have to pay in fees and premia for the federal default guarantee?

UBS has to pay the federal government a fee for the guarantee. This is comprised of the following three components:

- **Initial set-up fee:** CHF 40 million, payable in two tranches to cover the set-up and advisory costs.
- **Annual maintenance fee to cover certain ongoing federal costs:** 0.4% of CHF 9 billion (CHF 36 mn), payable in four instalments at the end of each quarter, with the first payment due on 31 December 2023.
- **Annual drawn portion fee:** annual risk premium of between 0% and 4% of CHF 9 billion, depending on the already realised losses and those still expected. The greater these losses, the higher the respective risk premium, which will have to be paid only in the event of the guarantee being drawn.

If the courts were to decide that the holders of AT1 bonds must be compensated, would the federal government or UBS pay for this? And is that part of the loss protection agreement?

Credit Suisse's AT1 bonds are not covered by the loss guarantee. The federal government does not comment on ongoing court proceedings and related speculation.

Emergency law

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.

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.

Why does the emergency ordinance on the takeover of Credit Suisse mention that related documents are not subject to the Freedom of Information Act (FoIA)?

In this regard, please refer to the [explanatory report on the ordinance \(Art. 6 para. 3\)](#).

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

Moreover, the application of this provision is nothing new. It was already used in the context of [the Railways Act \(of 20 November 1957\)](#) and the [activation of the rescue mechanism for Axpo \(September 2022\)](#).

However, the authorities do inform the public about important findings, parameters and framework conditions. Please refer to, among other things, the Federal Council press conference of 19 March 2023, the explanatory report on the emergency ordinance and the information on the [FDF website](#), which is updated on an ongoing basis.

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 is the «too big to fail» (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.

Regulation

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 further regulatory steps lie ahead?

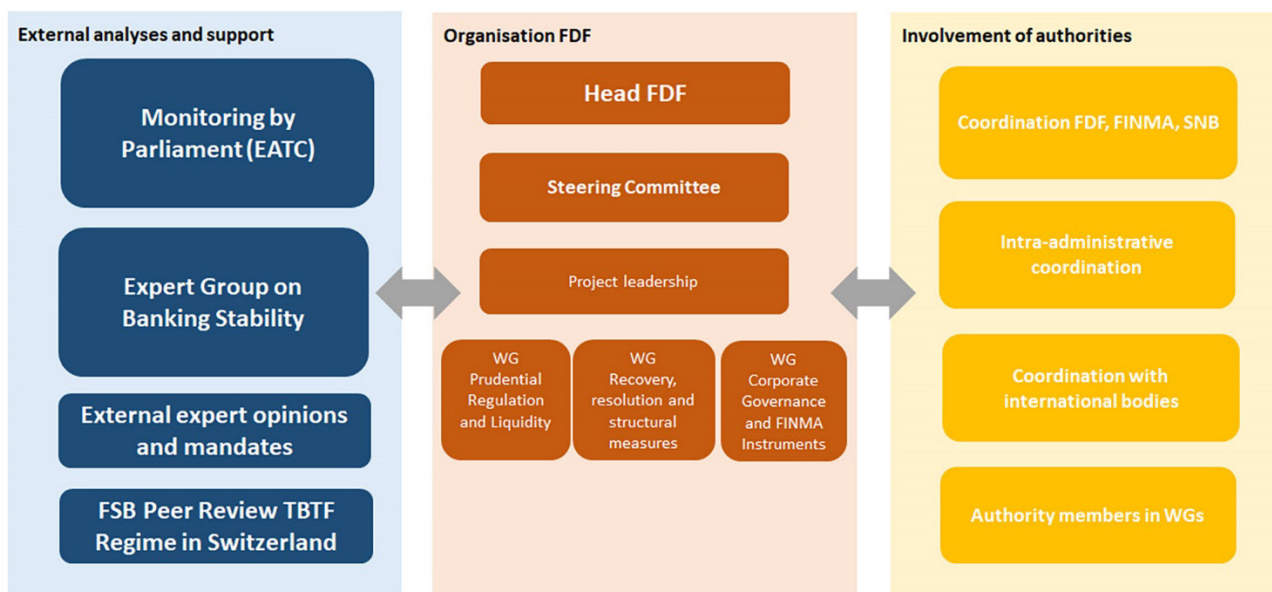
The existing regulations will be continually reviewed and, if necessary, adapted to new developments. Specifically, the introduction of a public liquidity backstop is being prepared. Moreover, even higher liquidity requirements had already been decided for systemically important banks. These came into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

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 too-big-to-fail framework. In doing so, the Federal Council relies on Article 52 of the Banking Act, which obliges it to report regularly on systemically important banks. The next corresponding report should be available by the beginning of April 2024. In connection with the preparation of the report, the Federal Department of Finance has set up a working group under the leadership of Jean Studer, former Chairman of the Bank Council of the Swiss National Bank. See:

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

Project setup TBTF report



Consequences for third parties

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.

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 bn¹). This ensures that private measures are 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 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.

Employees and wages

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

The currently outstanding variable remuneration of the top three levels of management at Credit Suisse will either be cancelled (Executive Board), or reduced by 50% (members of management one level below the Executive Board) or by 25% (members of management two levels below the Executive Board). This differentiated approach takes account of the most senior managers' responsibility for the situation at Credit Suisse. Credit Suisse is also obliged to examine the possibility of recovering variable remuneration already paid out and to report to FINMA on the matter. In addition, the variable remuneration due in 2023 will be cancelled or reduced on a pro rata basis until the takeover is completed. The measures affect around 1,000 employees and concern CHF 50-60 million in variable remuneration. (+ link to press release of 05.04.2023)

[05.04.2023 - Federal Council makes decisions on variable remuneration at Credit Suisse and UBS](#)

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

Why did the federal government not cancel any variable remuneration at UBS despite the CHF 9 billion default 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 can no longer offer a competitive remuneration system, there is a danger of this resulting in a considerable risk for operational stability and ultimately for the bank's entire business, which is something to be avoided.

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