



Friday, 20 December 2024 10h30

PRESS RELEASE

LESSONS FROM THE CREDIT SUISSE CRISIS – PINC IDENTIFIES NEED FOR ACTION

The Parliamentary Investigation Committee (PInC) attributes the Credit Suisse crisis to years of mismanagement at the bank. It is critical of FINMA's relaxation of capital requirements and regrets the lack of effectiveness of its banking supervision. The PInC also criticises the hesitant development of the TBTF legislation and identifies shortcomings in the flow of information between authorities. It does not find any misconduct on the part of the authorities as a causative factor in the Credit Suisse crisis and acknowledges that the authorities prevented a global financial crisis in March 2023. In its report, however, the PInC calls for specific improvements: a more international approach to TBTF regulations, more effective rules for systemically important banks, and clearer directives on coordination with the authorities responsible for financial stability in Switzerland.

The Parliamentary Investigation Committee set up on 8 June 2023 was tasked with investigating the conduct of the authorities in the context of the emergency takeover of Credit Suisse. The scope of the inquiry included Credit Suisse to the extent deemed necessary to assess the authorities' role. Responsibility for the loss of confidence in Credit Suisse and the difficulties that jeopardised its existence in March 2023 lies with its Board of Directors and Executive Board, who had defied numerous interventions by FINMA in the preceding years. In its final report, the PInC did not find any causal misconduct on the part of the authorities.

The PInC unanimously adopted its report at its last meeting on 17 December 2024. It publishes its report today, along with nine expert reports it commissioned.

The inquiry focused on the actions of the Federal Council as a whole and the parties to the tripartite memorandum of understanding (MoU) for financial stability – the Federal Department of Finance (FDF) and its relevant offices, the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank (SNB) – as well as the Federal Audit Oversight Authority (FAOA). The period under inquiry begins in 2015 and covers four distinct phases: (1) from 2015 to summer 2022, (2) from autumn 2022 to mid-March 2023, (3) the acute phase of the crisis from 15 to 19 March 2023, and (4) implementation of the merger. The PlnC concentrated its work on the first three phases.

PRE-CRISIS PHASE: PLB NOT YET IN PLACE, EASING OF CAPITAL REQUIREMENTS

Concerning the period preceding the crisis, the PlnC was particularly interested in further developments of the too-big-to-fail (TBTF) regulations. It found that the Federal Council and Parliament gave too much consideration to the concerns of systemically important banks (SIBs) in the implementation of international standards (Basel III, BCBS and FSB principles), particularly from 2015 on. For example, the Federal Council repeatedly granted SIBs extended transitional periods to comply with further legal developments; it also suggested delaying the adoption of international standards. The PlnC believes the Federal Council acted too hesitantly, particularly with regard to the introduction of a public liquidity backstop (PLB).

The PlnC also scrutinised FINMA's conduct of business, finding that its supervisory activities – while intensive – lacked sufficient impact. Despite numerous enforcement proceedings and warnings issued by FINMA, Credit Suisse continued to be plagued by a series of scandals. The PlnC finds it regrettable that FINMA did not opt for a withdrawal of recognition for guarantees of proper business conduct during this period.

Moreover, the PlnC fails to understand why FINMA granted Credit Suisse extensive easing of its capital adequacy requirements in 2017 in the form of a regulatory filter. This allowed the bank to switch from a portfolio valuation to individual valuation method without being required to build up substantial capital straight away. While the filter was legal, the PlnC questions its usefulness. Its impact turned out to be far greater than expected: without the filter, Credit Suisse would have failed to meet capital adequacy requirements – just marginally in 2021 but significantly in 2022. The PlnC sees an urgent need for action in the granting of alleviations to systemically important banks.

LIMITED SCOPE FOR ACTION IN AUTUMN 2022

In the course of 2022, there was a marked deterioration in the various indicators used to measure Credit Suisse's financial situation. At the beginning of October and again in late December, Credit Suisse experienced massive liquidity outflows and came close to insolvency. The authorities mobilised their crisis coordination bodies from August and switched to crisis mode in October.

The exit scenarios prepared from the outset included those set out in the TBTF rules (liquidation; ELA) and several additional options (TPO; ELA+; takeover). The PlnC believes that the most important scenarios were analysed. However, it criticises the fact that not all the authorities involved had the same level of knowledge during this phase, which may have hindered the possibility of taking decisive action at an earlier stage. In particular, the information given to the Federal Council in autumn 2022 should have been more comprehensive. The PlnC also considers that the informal meetings initiated by the then finance minister and the Chairman of the SNB's Governing Board in

the autumn of 2022 were of limited use, as they were not sufficiently coordinated within the regular crisis structures. If the PLB had already been in place, the authorities could have intervened in the autumn to restore confidence without the need for emergency legislation. Furthermore, any scope for action was limited by the regulatory filter introduced in 2017.

INTENSIVE SEARCH FOR A SOLUTION UNDER DIFFICULT CONDITIONS IN MARCH 2023

A regional banking crisis in the United States in mid-March 2023 and its immediate impact on Credit Suisse took the federal authorities by surprise; they had not yet completed their analysis of the various scenarios. Nonetheless, extensive preparatory work since autumn 2022 enabled them to keep Credit Suisse solvent from the onset of the acute crisis on Wednesday, 15 March 2023 until the weekend, thereby averting an international financial crisis. By the time the situation came to a head, a merger of Credit Suisse with UBS had become the preferred option for all the authorities involved.

Negotiations between Credit Suisse and UBS proved difficult, and the outcome was uncertain. The authorities therefore continued to pursue a number of fallback options in parallel: restructuring of Credit Suisse, temporary public ownership, or even a forced merger as a last resort. It remains unclear which solution would have been adopted if the emergency takeover had failed.

While exploring solutions, the authorities sought to reconcile the interests of Credit Suisse and UBS to a certain extent and take due account of the financial impact on the Confederation. The emergency legislation was applied in accordance with the law. In view of the acute situation, the PlnC understands that an alternative solution with a foreign bank was no longer feasible at that point in time, even if it might have been more advantageous for Switzerland's competitive position in the longer term. Additionally, the PlnC notes that the chosen solution has revealed certain weaknesses in the existing TBTF regulations.

TBTF REGULATIONS UNABLE TO WITHSTAND CRISIS OF CONFIDENCE, OTHER FINDINGS

The PlnC acknowledges the achievements of the authorities in March 2023 in preventing a global financial crisis. However, it believes that lessons must be learnt from their handling of the Credit Suisse crisis, especially given that this was the second time the state had to intervene to save a systemically important bank and also due to the fact that Switzerland now has only one remaining global systemically important bank (G-SIB).

The PlnC sees room for improvement in terms of enforcement and legislation. In its report, it addresses twenty recommendations to the Federal Council and submits six postulates, four motions and one parliamentary initiative. It concludes that the current TBTF legislation focuses too heavily on Switzerland, particularly in terms of emergency planning, and that the resolution plan for a G-SIB operating internationally from Switzerland must consider international interdependencies. Furthermore, the current TBTF regulations are not designed to deal with a crisis of confidence and overlook some important market indicators. The PlnC recommends restricting future easing of capital and liquidity requirements. It also identifies need for action regarding the current rules on audit oversight.

Coordination between the individual authorities and the involvement of the Federal Council as a

whole was found to be suboptimal, with particular attention needed in the exchange of information. Improvements are also needed in risk management and early crisis detection.

UBS, now Switzerland's only G-SIB, is many times larger relative to the country's gross domestic product (GDP) than other financial institutions are relative to their country's GDP. The PlnC considers it essential that this fact be given due consideration in the regulations.

Over the past 18 months, the PlnC, presided by Isabelle Chassot (The Centre, FR), conducted 79 hearings in 45 sessions and analysed over 30,000 pages of material. On this basis, it has drawn up the present report for the attention of the Federal Assembly. Over the past summer and autumn, the PlnC consulted the authorities and offices concerned as well as all members of the Federal Council on various parts of the report. On 16 December, it consulted a Federal Council delegation on the draft of its overall report in accordance with Article 167 para. 2 of the Parliament Act. The Federal Council now has until the next session to prepare its statement on the basis of the final report. The report is scheduled to be discussed in the 2025 spring session.

AUTHOR



CEP
Secrétariat de la commission d'enquête parlementaire
CH-3003 Bern
www.parlament.ch
puk.cep@parl.admin.ch

INFORMATION



Isabelle Chassot
President of the Parliamentary Investigation Committee
Tel.: +41 79 407 80 75

Ursina Jud Huwiler
Secretary of the Parliamentary Investigation Committee
Tel.: +41 58 322 90 74