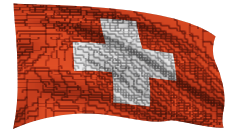


Switzerland: An update on the Crédit Suisse Collapse



On 20 December 2024, the Parliamentary Investigation Committee report concerning Credit Suisse (CS) issued its report. It “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.[...] 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”.

The Commission’s findings also pointed out weaknesses in the current “too big to fail” (TBTF) regulations, prompting the Federal Council to re-evaluate these frameworks, while underscoring the need for enhanced financial oversight, risk management and improved clarity in the roles and responsibilities of authorities in future crises, ultimately ensuring the integrity, stability and resilience of the Swiss financial system.

The Federal Council issued its opinion a few hours only after the report was rendered public. It highlights that the acquisition of CS by UBS was the optimal solution to avert a broader financial crisis.

Improving TBTF Regulations to prevent future financial crises

Several key areas can be enhanced:

- 1. Strengthening Capital and Liquidity Requirements:** Regulations should enforce stricter requirements for capital buffers and liquidity ratios specifically tailored for systemically important banks (SIBs) ensuring these institutions can withstand financial shocks without requiring government intervention or taxpayer bailouts.

- 2. Enhancing Early Warning Systems:** Improving mechanisms in SIBs for early detection of potential financial risks is crucial. Establishing clearer protocols and indicators of distress for crisis management should engage relevant authorities sooner. Regular assessment and adjustment of what constitutes systemic importance is necessary to adapt to changing market conditions and to include non-traditional risks.

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- 3. Increasing Transparency and Accountability:**

Enhancing transparency regarding the operations and financial conditions of SIBs is vital. Regulatory bodies should ensure that the public is adequately informed about ongoing investigations and enforcement actions.

- 4. Revising Governance Structures:**

The governance of regulatory authorities should be restructured to ensure effective oversight of financial institutions, including by refining cooperation between regulatory bodies, such as FINMA (Federal Financial Market Supervisory Authority) and FAOA (Federal Audit Oversight Authority).

- 5. Implementing a Public Liquidity Backstop:**

Establishing a legal framework for a public liquidity backstop would provide a safety net to be utilised without triggering government bailouts.

- 6. Clarifying Legal Frameworks for Crisis Management:**

A well-defined legal structure for managing financial crises is essential, including clear responsibilities for various authorities. The authorities should consider adapting the legal frameworks governing SIBs, including by reviewing and amending TBTF legislation to ensure it is applicable in

national and international contexts.

- 7. Regular Review and Adaptation of Standards:**

Regulations should mandate regular reviews of standards to ensure relevance and effectiveness.

Ensuring effective coordination during financial crises

To ensure effective coordination during financial crises involving SIBs and to mitigate the impact of financial crises, authorities may adopt several key strategies:

- 1. Institutional Collaboration:** Authorities should establish robust communication channels among relevant institutions, such as the Federal Department of Finance (DFF), SNB and FINMA.
- 2. Designation of a Lead Authority:** In a crisis, a lead authority should be designated with the explicit responsibility to coordinate actions and communications between all involved parties during emergencies.
- 3. Review and Improvement of Procedures:** Regularly reviewing crisis management procedures and conducting drills simulating crises involving systemic institutions can help identify gaps in coordination, especially if integrated into operational practices.
- 4. Enhanced Transparency and Accountability:** Fostering a culture of transparency and accountability among agencies will encourage timely communication and cooperation.

Lessons to draw from the CS crisis to strengthen banking system resilience

The CS crisis highlights several key lessons that can be applied to strengthen the resilience of the Swiss banking system:

- 1. Improvement of Regulatory Framework:** The crisis

revealed vulnerabilities within existing TBTF provisions. The Commission recommended a reevaluation to ensure systemic risks are sufficiently addressed, including by possibly introducing more stringent requirements for systemic banks (SIBs) and creating a clearer legal basis for public liquidity backstops

- 2. Strengthening**

Communication Processes: Transparent communication is vital to maintain market confidence. The CS crisis demonstrated that effective communication strategies must include timely updates regarding bank stability and actions being taken by authorities. A single point of communication or an overarching coordinating body could streamline messages and reduce confusion. Enhancing public access to information about the financial health of major institutions and potential risks can build trust in the financial system and prevent panic.

To be continued... Pursuant to a Bloomberg report of 20 March 2025, UBS would explore the possibility of relocating outside Switzerland, while the government is asking the bank to inject 25 billion Swiss francs in equity after the acquisition of CS. ■



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