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CENTRAL BANKS ROLL OUT ANTI-CREDIT SUISSE SAFETY NET

The Swiss virus has been contained

Swiss bank saved with huge giveaway to UBS Subordinated AT1 bonds written down to zero Legal and class action on the horizon. Stock markets stable thanks to ECB's "whatever it takes" approach

BANKS ON ALERT/1 MARKET DEAL? NO, UBS-CREDIT SUISSE IS A STATE INTERVENTION

The doubts about the bailout

Bern defuses the bomb but fails to clarify the reasons for the crisis Controversy over price and devaluation

BY LUCA GUALTIERI

Over the course of a single weekend, the topography of the European banking system has been upended. After a bruising weekend, the merger of Credit Suisse and UBS has created a banking giant, with managed equity of $5,000 billion and over $1,600 billion in assets. The move makes it not only a global colossus in wealth and asset management, but also one of the biggest financial companies in Europe, ranking just below French banks BNP Paribas and Crédit Agricole. While the solution adopted by the Swiss and the joint action of the central banks may have abated speculation, yesterday the rescue sparked controversy on the markets. Firstly, despite having all the characteristics of one, the Swiss authorities categorically reject that the move is a bailout. "It's a market operation," insisted the Swiss Minister of Finance Karin Keller-Sutter at the press conference held after the takeover was announced, an unusual definition, given that the merger will take effect without shareholder approval.

Semantics aside, yesterday, controversy circulated around the methods adopted by the Swiss government to shore up Credit Suisse. Specifically, doubts abound on the decision to write off CHF 16 billion in Additional Tier 1 liabilities without devaluing the bank's capital, a move thus far unprecedented in Europe. The prospectus of Credit Suisse's AT1 bonds signalled the possibility of permanent write-down, but often only under very specific circumstances, such as liquidation or dissolution, neither of which entered into the operation announced on Sunday.

The interpretation of some analysts is that the write-down was justified by the emergency liquidity provided by the central bank. This move would have made the crisis clear (the point of no viability). As head of Fixed Income at Banor Capital Francesco Castelli explained to *MF-Milano Finanza*, "The law allows for the permanent write-down of bonds if the bank is no longer able to guarantee business continuity. It is important to emphasise that this condition doesn't depend on the default, dissolution or liquidation of the company, as would normally happen, but is intended as a precaution and is entirely based on the discretion of the Swiss central bank." "Yet this is unprecedented," commented Gianluca Codagnone, head of sales at Bestinve. In the MPS bailout in 2016, bonds were weakened "after a liability management exercise that valued the bank's assets at market value, bringing losses to light and respecting the insolvency hierarchy. Where are Credit Suisse's losses?"

And there is another cause for confusion. While the move may have cured Credit Suisse's ailment, the nature of the affliction remains unclear. The balance sheets point to an institution with a robust asset quality and capital levels in line with the major European banks (the CET1 ratio rose to 14.1% after the CHF 4 billion increase closed in December). The situation in the last few days has been nothing if not dramatic, as the Swiss Finance Minister noted on

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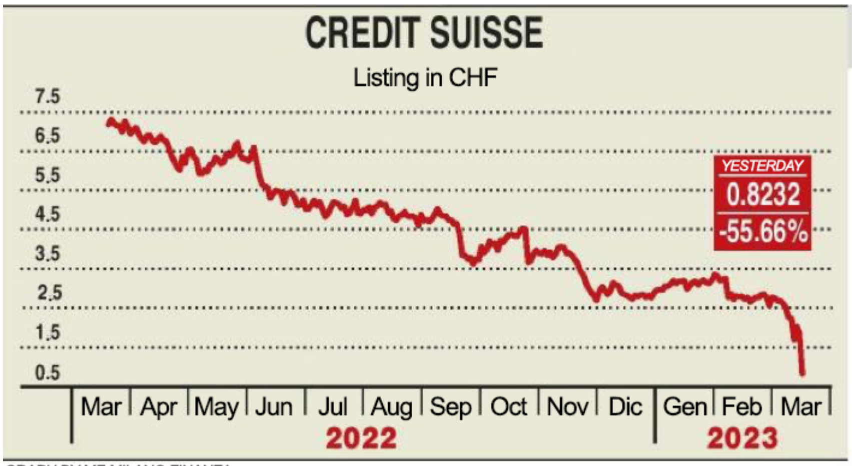
Sunday: "The collapse of Credit Suisse would have had major consequences at a global level." But can such a crisis of liquidity and, therefore, of confidence be triggered out of nowhere? And, if the bank was indeed in need of rescue, why was it sold to UBS (which yesterday gained 5%, without pricing in the dilutive effect of the deal) for just CHF 3 billion, instead of the over CHF 7 billion capitalisation recorded on Friday 17?

"UBS has made the deal of a lifetime. Never before has a bank increased its NAV by 70% overnight. This will be excellent news for all UBS stakeholders," summarised Davide Serra, founder of Algebris, who criticised the methods adopted by the Swiss authorities. "FINMA definitely took the market by surprise, amending the law from one day to the next and upending the capital structure seniority. This has never happened before and is clearly a very unpleasant political error," concluded Serra.



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