

19 March 2023: the AT1 write-down

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The weekend of 18 and 19 March 2023 put the Swiss translation of Basel III to its hardest test. The takeover of Credit Suisse by UBS, which Part E, Chapter I described, was accompanied by a measure that had no precedent of this size. FINMA informed Credit Suisse that its additional tier 1 instruments, with a nominal value of about sixteen billion francs, were to be written down in full. The legal basis was a combination of the contractual terms of the instruments and an emergency ordinance of the Federal Council. The ordinance was amended on the evening of 19 March to authorise FINMA to order the write-down of additional tier 1 capital in the event of extraordinary government support.¹

The shareholders of Credit Suisse received UBS shares worth about three billion francs, while the AT1 holders received nothing. In the ordinary hierarchy of claims, which places shareholders behind all creditors, this result appeared inverted. The Swiss authorities explained that the AT1 instruments of Credit Suisse were designed to be written down in such a situation, that their terms expressly provided for a write-down in the event of extraordinary government support and that the shareholders had received the consideration negotiated in a private takeover. FINMA emphasised that the instruments were contractually subordinated in a different way from those in jurisdictions where AT1 instruments convert into shares.²

The decision must be seen against the alternative that the authorities had prepared and did not use. In a resolution under the too-big-to-fail regime, FINMA would have written down the equity and converted the bail-in bonds of Credit Suisse into new shares, in accordance with the hierarchy of claims. While the shareholders and the AT1 holders would have lost everything, the holders of bail-in bonds would have become the new owners of the bank. The choice of a private takeover with public support replaced this sequence with an improvised one. The AT1 write-down made

a contribution of private capital to the solution, which the authorities regarded as necessary because public funds were committed, while the shareholders were left a residual value as part of the takeover terms negotiated with UBS.

1 Notes

1. On FINMA's order of 19 March 2023 to write down Credit Suisse's AT1 instruments (about CHF 16 billion) and the amendment of the emergency ordinance of the Federal Council on additional liquidity assistance loans and the granting of federal default guarantees (SR 952.3) authorising FINMA to order the write-down, see FINMA's statement of 23 March 2023 and its report Lessons Learned from the CS Crisis (December 2023). To be verified. ↩
2. On FINMA's explanation of the legal basis and contractual terms of the AT1 write-down (viability event in the case of extraordinary government support, permanent write-down feature of the Credit Suisse instruments) and the consideration received by Credit Suisse shareholders in the merger, see FINMA's statement of 23 March 2023. To be verified. ↩

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