

Going concern, gone concern and the parent bank

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The Credit Suisse case has drawn attention to a distinction that is central to the post-2008 architecture: the distinction between going-concern capital, which absorbs losses while the bank continues to operate, and gone-concern capital, which absorbs losses in resolution. Going-concern capital consists of common equity and AT1 instruments. Gone-concern capital consists mainly of bail-in bonds, which are converted into equity or written down when the resolution authority intervenes. The Swiss regime of 2016 set both requirements at a high level. In March 2023 the going-concern capital of Credit Suisse at group level still exceeded the regulatory minimum by a comfortable margin, with a common equity ratio of about fourteen per cent at the end of 2022.¹

The going-concern capital did not prevent the collapse, because the run that destroyed Credit Suisse was a run of confidence that capital ratios did not reverse. The gone-concern capital was not used, since the authorities chose a takeover in place of a resolution. The bank thus failed with its capital buffers formally intact, which reinforced the doubts that some economists had expressed since 2010 about the effectiveness of risk-weighted capital. Anat Admati and Martin Hellwig had argued in *The Bankers' New Clothes* that banks should be required to hold far more equity, measured against total assets, and that complex instruments such as contingent convertibles were no substitute for equity.² The Credit Suisse case gave this argument new weight in the Swiss debate.

A further problem became visible at the level of the parent bank. Credit Suisse, like UBS, was organised as a group in which the Swiss parent bank held participations in foreign subsidiaries, among them the subsidiaries in the United States and the United Kingdom. The Basel framework applies on a consolidated basis and on a solo basis, but leaves the treatment of participations in subsidiaries at the solo level largely to national discretion. Under the Swiss rules, the parent bank had to back its participations with

capital only partially, through risk weights that were raised in stages after 2019. When the foreign subsidiaries suffered losses or their value fell, the parent bank's capital ratio fell with them, while capital that was trapped in the subsidiaries could not be moved to the parent because foreign supervisors required it locally.³

The Parliamentary Investigation Committee criticised in particular a regulatory filter that FINMA had granted to the Credit Suisse parent bank in 2017. It allowed the parent bank to present its capital ratio more favourably than the strict application of the rules would have permitted. The filter remained in place until the crisis.⁴ The case illustrates how much of the substance of a capital requirement lies in technical decisions that the Basel texts do not regulate. A national supervisor can comply with every paragraph of the standard while weakening its effect through decisions on valuation, deductions and transitional relief. The Swiss reform proposal of 2025 and 2026, which requires systemically important banks to back their foreign participations fully with common equity at the parent level, addresses this gap. It also addresses a question that the Basel Committee has never settled internationally: how capital should be distributed within a cross-border banking group between the home and the host jurisdictions.

1 Notes

1. On the CET1 ratio of Credit Suisse Group of about 14 per cent at the end of 2022 and the composition of its going-concern and gone-concern capital, see Credit Suisse Group, Annual Report 2022, and FINMA, Lessons Learned from the CS Crisis (December 2023). Figures to be verified. ↩
2. Anat Admati and Martin Hellwig, *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It* (2013, revised edition 2024). To be verified. ↩
3. On the treatment of participations in subsidiaries at the level of the parent bank under the CAO (risk-weighting of participations, raised in stages from 2019 for systemically important banks) and the effect of losses on foreign participations on the parent bank's capital, see the Federal Council's report on banking stability of 10 April 2024 and FINMA, Lessons Learned from the CS Crisis (December 2023). To be verified. ↩

4. On the regulatory filter granted by FINMA to Credit Suisse AG in 2017 concerning the valuation of participations and its effect on the parent bank's capital ratio, see the report of the Parliamentary Investigation Committee of December 2024 and FINMA, Lessons Learned from the CS Crisis (December 2023). Details to be verified. ↩

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