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Credit Suisse/AT1s: additional tears run for conflicted Swiss officials

Executives are planning to sue regulator Finma



The chances of Credit Suisse bankers getting compensation from government coffers looks slim, at least from a political perspective. © AFP via Getty Images

MAY 22 2023

Bond disputes usually involve a bust-up between investors and company bosses. It is vanishingly rare for an issuer to side [with disgruntled creditors](#). Credit Suisse nevertheless [disputed](#) the ill-judged decision of the Swiss authorities to wipe out its additional tier one securities.

Swiss officials wanted UBS to take over its struggling rival. Waiving the requirement for equity to evaporate first saved the acquirer \$17bn. That has imposed a heavier cost on Switzerland. It has tarnished the country's reputation for financial reliability and lumbered it with legal disputes that will rumble for years.

Unusually, EU and UK financial authorities have publicly criticised Swiss counterparts. Credit Suisse objected first, privately. It did so because at least 5,000 executives had \$400mn of bonus awards reflecting the performance of the AT1s. The payouts have been cancelled. Along with a portion of AT1 holders, executives are [planning to sue Swiss regulator Finma](#).

So-called contingent capital awards were popular with some Credit Suisse executives as, ironically, they appeared to offer more security. A semi-annual dividend provided a yearly yield of 8 per cent. The trade off was less potential for capital gains than more typical equity awards.

This latest dispute is further evidence of Finma's hastiness. The watchdog claims a "viability event" loomed, imperilling the nation's banking system. A threat to one of the nation's largest domestic banks could infect the whole system, it argues. This legal expropriation of AT1 capital was justified, in Finma's view, for the sake of national needs.

But in other cases — say, forcing the sale of private land for public needs — compensation is usually paid. AT1 holders have received none so far.

The chances of Credit Suisse bankers getting compensation from government coffers looks slim, at least from a political perspective. A history of reckless risk-taking by a subset of these executives was the reason clients began pulling deposits amid wider banking turmoil.

However, the case undermines Switzerland's claims that its ability to upend capital hierarchies was well-known. Even financial professionals employed by the issuer thought AT1s were safer.

Regulators are meant to set rules and police them. Evidence is growing that Finma - under heavy pressure from politicians - did just the reverse.

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