ALTERNATIVE INVESTMENTS

March 16th 2023

CREDIT SUISSE – Flash News Axiom AI

FINMA and the Swiss National Bank, taking note of market concerns about the situation of Credit Suisse, took a position last night to reassure investors about the bank's situation and the commitment of the authorities to intervene if necessary.

“Credit Suisse meets the capital and liquidity requirements imposed on systemically important banks. If necessary, the SNB will provide CS with liquidity."

It is a very strong statement of support, the main points of which are as follows:

1. The bank is by no means a candidate for resolution, as was the case with US banks over the past weekend;
2. The SNB does not set any limit to the provision of liquidity to the bank; This is, in our opinion, a strategy "à la Draghi".

Besides the main messages (the bank is strong and liquidity will be available) there are two subtle yet important parts to the release, in our view:

- The reference to the Federal Department of Finance, which we interpret as leaving the possibility of the state taking an equity stake in the bank (which neither Finma nor the SNB can do)
- The very specific wording about the provision of liquidity to the "globally active bank". Within FINMA's regulatory framework, there are two types of systemic institutions, globally active and domestic. The globally systemic entity is Credit Suisse Group AG, the holding company. This could have been said more clearly, but our understanding is that it means that liquidity will also be available at the holding company level. This is a significant difference with the usual monetary policy operations which are usually carried out with the operational entities. It could therefore reinforce the group's financial flexibility.

Later, Credit Suisse has announced:

- A drawdown of around CHF 50 billion from the SNB (which is probably meant to reassure those who criticized the absence of any amount in the SNB/FINMA release)
- A repurchase of its own senior debts, as Deutsche Bank did in 2016 and which reassured the markets. Given the amounts drawn the message is "we can do more", we think.
- This will allow an immediate and very significant improvement of the LCR (all else equal we calculate a new LCR at 200%)

Finally, Credit Suisse stresses that it is "positioned in a conservative manner with respect to interest rate risks. The volume of fixed-income securities with duration is not significant compared to the entire HQLA portfolio (high quality liquid assets) and, moreover, it is fully hedged against fluctuations in interest rates." This is intended for the markets to finally understand that it has nothing to do with SVB which had an outsized book of unhedged government bonds.

Other developments are possible to fully secure the customer franchise. M&A is increasingly a possible option.

The content of this email reflects our analysis of the situation but in no way constitutes a buying recommendation.