Market Update
Credit Suisse Acquired by UBS

20 March 2023

Following a tumultuous week for stocks in the banking sector, late on Sunday night it was announced that UBS would acquire all the shares in Credit Suisse.

This appears to be driven by concerns over a large reported loss for the year ($8 billion USD), U.S. Securities and Exchange Commission's unease with Credit Suisse's Financial Reporting practices over a prolonged period, a falling share price in the wake of the Silicon Valley Bank collapse and general nervousness over the bank's ongoing viability.

Fears escalated after the largest shareholder, The Saudi National Bank, also said they wouldn't buy further shares in Credit Suisse. They held 9.88% of the shares on issue.

The Swiss National Bank (Switzerland's equivalent of the Reserve Bank of Australia) and FINMA (Switzerland's financial Regulator) had recently stated that Credit Suisse "meets the capital and liquidity requirements imposed on systemically important banks" and that the Central Bank would provide additional liquidity if required.

Over the weekend however, Credit Suisse was taken over by fellow Swiss banking giant UBS.

Late last week, Credit Suisse counterparties had started to become nervous over their exposure to Credit Suisse, in some cases limiting or suspending transactions with the Bank. This move by UBS, and the support provided by the Swiss Central Bank, should restore confidence in the European financial system.

Timeline of recent events in the banking sector

- **8 March:** Silicon Valley Bank announces that it will report a loss of $1.8 billion due to selling some of it's investments to cover increasing withdrawals. The Bank also discloses plans to raise $2.25 billion by selling a mix of common and preferred stock.
- **9 March:** Share prices of the four largest banks in the US fall, driven by concerns that other banks may face losses to raise cash. Venture-capital firms begin pulling their money out of Silicon Valley Bank and urging their portfolio companies to do the same. By the end of the day, depositors have attempted to withdraw $42 billion from the Bank.
- **9 March:** Credit Suisse was forced to delay its 2022 Annual Report after a late call from the U.S. Securities and Exchange Commission relating to a "technical assessment of previously disclosed revisions to the consolidated cash flow statements" in 2019 and 2020.
- **10 March:** Federal Regulators halt trading of Silicon Valley Bank's shares following a pre-market selloff, announcing that they have taken control of the Bank before it can open. This marks the second-largest bank failure in US history.
- **12 March:** In response to the fear of bank runs, Federal Regulators unveil emergency measures to prevent further fallout from Silicon Valley Bank's failure. They announce the takeover of a second bank, Signature Bank, which becomes the third-largest bank failure in US history. Regulators assure customers of both banks that they will receive all their money back and announce a new lending program for banks.
- **14 March:** Credit Suisse published its 2022 Annual Report and Credit Suisse noted that "material weaknesses" were found in its Financial Reporting processes for 2021 and 2022, though it confirmed that it's previously announced financial statements were still accurate.

  Credit Suisse's largest shareholder, the Saudi National Bank stated that it is unable to invest further in Credit Suisse shares due to regulatory restrictions – it already held 9.88% of the shares and there was a limit of 10%.
- **15 March:** Credit Suisse Group's shares plummet, causing concerns about the financial system across Europe. Other European banks' stocks also suffer, including Société Générale and BNP Paribas in France, and Deutsche Bank in Germany.
- **15 March (later that evening):** Credit Suisse announces plans to borrow up to 50 billion Swiss Francs ($53.7 billion USD) from the Swiss Central Bank to strengthen its liquidity.
- **16 March:** Credit Suisse's shares recover after the Bank's loan announcement, snapping an eight-session losing streak. First Republic's shares also turn positive after reports that the largest banks in the US are discussing a joint rescue to shore up the lender's liquidity. Federal Regulators later reveal that 11 banks have deposited $30 billion in First Republic.

- **18 March:** UBS Group is reported to be nearing a deal to take over Credit Suisse as part of a state-backed solution (Swiss National Bank) to restore trust in the banking system. UBS is the biggest bank by assets in Switzerland and had long been seen as part of any state-backed solution for Credit Suisse, the country's second-largest bank by assets.
- **19 March:** UBS confirms it's acquisition of Credit Suisse for over $3 billion, which marks a significant step in addressing the banking turmoil that resulted from Silicon Valley Bank's collapse.

It should be noted that while the collapse of Silicon Valley Bank and Signature Bank, and the associated weakness in the banking sector share prices globally, did impact Credit Suisse's stock price, the issues with the three banks were not directly connected.

Credit Suisse has been involved in multiple scandals in recent years, including the material weakness in Financial Reporting, which was uncovered in its 2022 Financial Report. Furthermore, the Bank closed the 2022 fiscal year with a loss of nearly $8 billion USD, its largest loss since the 2008 Global Financial Crisis.

Impact on the Australian Banking Sector

Our banking sector analyst in the Direct Equities Research team believes that there is limited risk to the major banks or regionals in Australia. We believe direct risks for the major Australian banks from developments in the US and Europe with Credit Suisse are modest given the banks are well capitalised, have a strong banking business mix, and overall credit quality remains sound.

APRA and the major Australian banks learned the lessons of the 2008 Global Financial Crisis and have significantly strengthened their liquidity, funding and capital requirements. The actions of the regulators and government in the US and Europe to guarantee the deposits and provide the necessary liquidity should also relax any contagion risks especially to Australia, although short term volatility is likely to remain.

What to Do

This current market volatility, while significant, does not alter our long-term views on how portfolios are positioned. We remain convicted in our approach to diversification and asset allocation and continue to seek best-of-breed investment within portfolios. It is important to manage your portfolio in accordance with your long-term objectives, aligned to your risk tolerance. If you have any concerns about your portfolios, please speak to us.

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