UBS Takeover of Credit Suisse

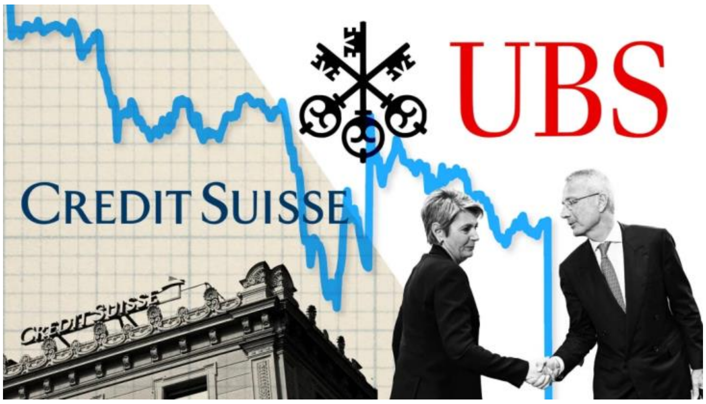
On the weekend beginning 18th March, authorities in Switzerland prepared emergency measures to fast-track a takeover of Credit Suisse by UBS. The acquisition combined Switzerland's two biggest lenders and came after

The Swiss Authorities became concerned regarding the rate of customer withdrawals being experienced by Credit Suisse and the rate that shares were plummeting despite a $54bn lifeline from Swiss National Bank.

The transaction is not subject to shareholder approval. UBS has obtained pre-agreement from FINMA, Swiss National Bank, Swiss Federal Department of Finance and other core regulators on the timely approval of the transaction.

The takeover will likely result in tens of thousands of jobs losses, with Credit Suisse employees likely to bear the brunt of these cuts. The layoffs arose from UBS's removal of overlapping roles, which is one of the drawbacks of horizontal integration such as this- many jobs become 'doubled up'

And so job cuts are inevitable. Needless to say, the Swiss financial sector is preparing itself for a heavy as a result of the takeover. The Swiss Bank Employees' Association commented, 'the takeover threatens job cuts on a scale that the labour market in the banking sector cannot absorb'. The association is calling for redundancies to be paused until the end of the year. It is predicted that as much as a third of the 120,000 jobs in the combined group could be cut, with many of Credit Suisse's 17,000 investment bankers potentially losing their jobs.



The UBS takeover has resulted in the wipeout of $17bn of Credit Suisse's AT1 bonds, which has caused panic among investors who loaded up on the risky debt. AT1 bonds, sometimes known as contingent convertible bonds, are a type of debt issued by banks and are used as a way to 'bail in' failing banks instead of governments bailing them out. In the case of the bank failing, losses are imposed on such AT1 investors and because of this bonds are very risky to hold, and investors are offered a higher return to own them. Many wealthy Asian investors, as well as other institutional investors, who held a significant amount of these bonds suffered substantial losses as their investments were wiped out. This move was surprising to investors as it created bigger losses for bondholders than shareholders, subverting the traditional hierarchy of creditors- Credit Suisse AT1 bonds were written down to zero while shareholders received $3.25bn.

Shareholder were denied a vote in this matter, entailing mass discontent. Due to the emergency measures, the normal consultation period for shareholders was bypassed and the deal was completed without their input. This has lead to many investors considering taking legal action, with shared belief that any action should have been dependent to an extent on investor approval, given that shares fell by 14% the following Monday.

Despite many significant issues, the situation may not be completely negative. Analysts have labelled the acquisition 'attractive' and 'compelling' in the long term, stating that this may have a positive financial impact in the future for the two firms