FORVM GEOPOLITICA
Independent Commentary on a Fractured World

Derivatives Bomb - Credit Suisse Rescue - Everyone Was Lied To

Why wasn't Credit Suisse simply wound down, as required by law and contingency plans? - The unwinding of the derivatives positions would have destroyed the Western financial system.

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Introduction

Warren Buffet said the following about derivatives in 2002:

> *«In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially*

> *lethal.»*
>
> WARREN BUFFET, 2002, BERKSHIRE HATHAWAY, ANNUAL REPORT 2002, S. 15

Process of the Credit Suisse rescue

In mid-March, Credit Suisse was taken over by UBS within a few days.

Although the big banks in Switzerland had worked out a detailed emergency resolution plan for this eventuality over many years, it was not applied to Credit Suisse.

This contingency plan would have preserved Credit Suisse's Swiss bank and sent the rest of the group into bankruptcy.

It was presented to the audience that there would have been no other solution within a few days.

Emergency law was applied.

According to Art. 185 para. 3 Federal Constitution, the Federal Council may

> *[...] issue ordinances and orders to counter serious disturbances to public order or internal or external security that have occurred or are imminent. Such ordinances shall be limited in time.*

I doubt that the Credit Suisse bankruptcy would have caused a serious disturbance of public order or threatened Switzerland's internal or external security.

All the more so because the emergency plan would have guaranteed the survival of Credit Suisse Switzerland.

The Federal Council thus raped the constitution in order to virtually strangle this deal with the aid of "emergency law".

The federal government and the SNB - i.e. the Swiss taxpayer - secured the deal with up to CHF 250 billion.

In 2008/2009, the USA spent USD 204 billion for all bail-outs. The largest bail-out was received by Wells Fargo & Co. with USD 25 billion.

Date	Financial Institution	City	State	Amount ▼
10/28/2008	**Wells Fargo & Co.**	San Francisco	Calif.	$25,000,000,000
10/28/2008	**JPMorgan Chase & Co.**	New York	N.Y.	$25,000,000,000
10/28/2008	**Citigroup Inc.**	New York	N.Y.	$25,000,000,000
10/28/2008	**Bank of America Corp.**[1]	Charlotte	N.C.	$15,000,000,000
10/28/2008	**Morgan Stanley**	New York	N.Y.	$10,000,000,000
10/28/2008	**Goldman Sachs Group Inc.**	New York	N.Y.	$10,000,000,000
1/9/2009	**Bank of America Corp. (Footnote 1)**	Charlotte	N.C.	$10,000,000,000

Source: https://money.cnn.com/news/specials/storysupplement/bankbailout/

More money was thus made available for the rescue of Credit Suisse alone than the entire bank rescue in the USA cost.

The details of the transaction are secret. Taxpayers are thus being asked to foot the bill for CHF 250 billion, but are not allowed to know why.

"Something stinks to high heaven!"

UBS is now acquiring the shares of Credit Suisse at a price of 3 billion (Credit Suisse had equity of CHF 45 billion as of 31.12.2022).

That is a steal for UBS.

It is exactly the same as always. UBS will make a profit of over CHF 40 billion and the risk is borne by the Swiss taxpayer, who only hedges the downside but does not participate in the upside.

Federal Councillor Keller-Suter was told: "You saved the world".

The whole story is somehow not coherent and it seems as if important information was withheld from the Swiss population, which has to answer for this transaction, not only because of the secrecy of the agreement.

Something stinks to high heaven.

News show different picture

The Austrian newspaper - Die Presse - published an article on April 5 with the title:

> *"UBS kept preparation for Credit Suisse takeover secret for years".*

This makes sense, otherwise the transaction would not have been feasible in a few days.

UBS did not respond to this explosive accusation, which means that it can be assumed that the report is true.

Why?

Derivatives position of Credit Suisse

The total derivatives held by Credit Suisse as of 31.12.2022 amounted to a staggering CHF 14,360 billion.

This figure is so fabulously gigantic that you have to put it in context to understand it.

Switzerland's gross national product is approximately CHF 800 billion. This means that Credit Suisse's derivatives position is 18 times larger than Switzerland's gross national product.

The official debt of the Swiss Confederation amounts to approximately 110 billion. Thus, the derivative position of Credit Suisse is 130 times larger than the debt of the Swiss Confederation.

Accounting of derivatives

The banks only list the so-called net positions of derivatives on their balance sheets, i.e. the gross positions netted, whereby the word derivatives does not even appear on Credit Suisse's balance sheet - they appear under various other positions and are insignificant in size.

To find the effective size of the derivative positions, turn to page 339 of the Credit Suisse Annual Report 2022.

Fair value of derivative instruments

The tables below present gross derivative replacement values by type of contract and whether the derivative is used for trading purposes or in a qualifying hedging relationship. Notional amounts have also been provided as an indication of the volume of derivative activity within the Group.

Information on bifurcated embedded derivatives has not been included in these tables. Under US GAAP, the Group elected to account for substantially all financial instruments with an embedded derivative that is not considered clearly and closely related to the host contract at fair value.

→ Refer to "Note 36 – Financial instruments" for further information.

Fair value of derivative instruments

	Trading			Hedging[1]		
end of 2022	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)
Derivative instruments (CHF billion)						
Forwards and forward rate agreements	2,088.2	1.7	1.7	0.0	0.0	0.0
Swaps	9,128.3	23.4	21.7	135.7	0.1	1.8
Options bought and sold (OTC)	644.4	8.2	8.6	0.0	0.0	0.0
Futures	144.9	0.0	0.0	0.0	0.0	0.0
Options bought and sold (exchange-traded)	35.9	0.0	0.0	0.0	0.0	0.0
Interest rate products	**12,041.7**	**33.3**	**32.0**	**135.7**	**0.1**	**1.8**
Forwards	701.4	8.7	10.0	17.7	0.1	0.2
Swaps	334.9	14.3	13.5	0.0	0.0	0.0
Options bought and sold (OTC)	167.5	2.5	2.7	0.0	0.0	0.0
Futures	4.1	0.0	0.0	0.0	0.0	0.0
Options bought and sold (exchange-traded)	2.8	0.0	0.0	0.0	0.0	0.0
Foreign exchange products	**1,210.7**	**25.5**	**26.2**	**17.7**	**0.1**	**0.2**
Forwards	0.3	0.0	0.0	0.0	0.0	0.0
Swaps	22.8	0.9	0.7	0.0	0.0	0.0
Options bought and sold (OTC)	181.4	5.2	7.5	0.0	0.0	0.0
Futures	42.0	0.0	0.0	0.0	0.0	0.0
Options bought and sold (exchange-traded)	469.3	18.9	18.5	0.0	0.0	0.0
Equity/index-related products	**715.8**	**25.0**	**26.7**	**0.0**	**0.0**	**0.0**
Credit derivatives[2]	**352.0**	**3.2**	**3.4**	**0.0**	**0.0**	**0.0**
Forwards	6.9	0.1	0.1	0.0	0.0	0.0
Swaps	9.5	0.7	0.4	0.0	0.0	0.0
Options bought and sold (OTC)	8.8	0.1	0.1	0.0	0.0	0.0
Futures	12.6	0.0	0.0	0.0	0.0	0.0
Options bought and sold (exchange-traded)	2.7	0.1	0.0	0.0	0.0	0.0
Other products[3]	**40.5**	**1.0**	**0.6**	**0.0**	**0.0**	**0.0**
Total derivative instruments	**14,360.7**	**88.0**	**88.9**	**153.4**	**0.2**	**2.0**

The notional amount, PRV and NRV (trading and hedging) was CHF 14,514.1 billion, CHF 88.2 billion and CHF 90.9 billion, respectively, as of December 31, 2022.

1 Relates to derivative contracts that qualify for hedge accounting under US GAAP.

2 Primarily credit default swaps.

3 Primarily precious metals, commodity and energy products.

Consolidated financial statements – Credit Suisse Group 339

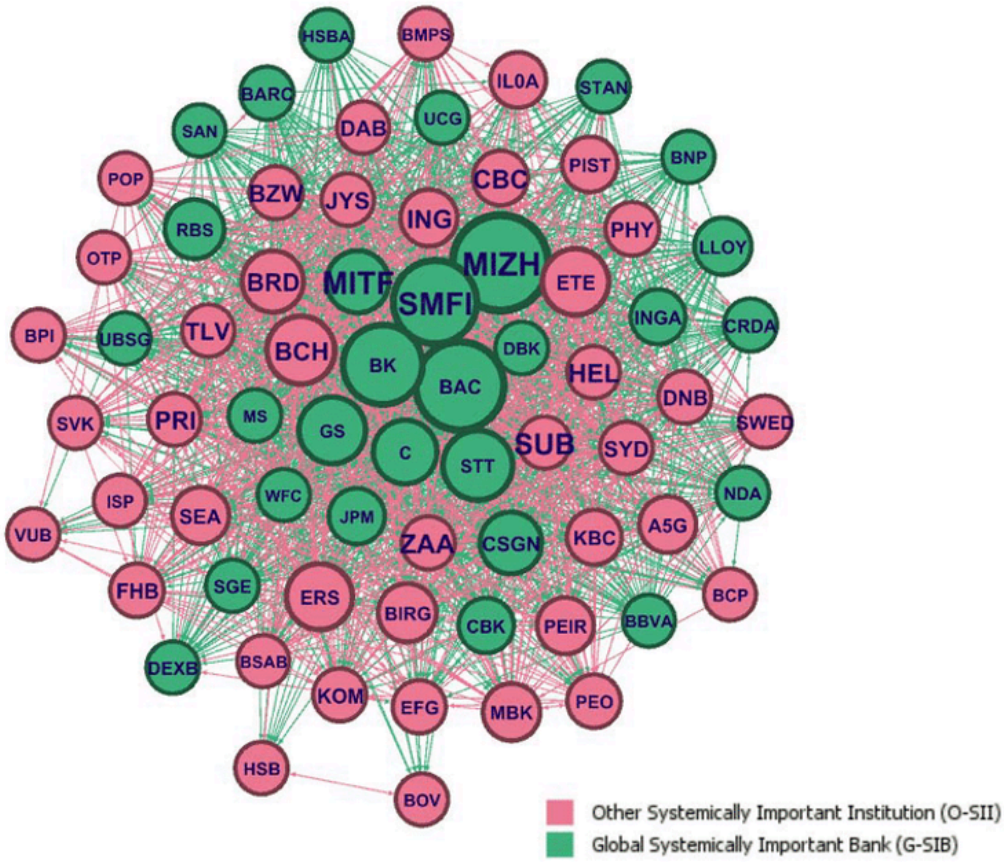
Derivatives in the event of the application of the Credit Suisse contingency plan

If CS had been wound up in accordance with the contingency plan, that part of the Credit Suisse Group which held these positions would have been sent into bankruptcy.

This is because the net position of the derivatives is only valid as long as all counterparties can fulfill their obligations under the derivative contract.

However, Credit Suisse's equity of approximately CHF 40 billion is approximately 360 times smaller than the derivative position.

Thus, in the event of bankruptcy, Credit Suisse would not have been able to meet its obligations, which would have led to a hole of the aforementioned CHF 14,360 billion in the derivatives cycle of this world. This would have led to a domino effect. All banks in the derivatives network would have gone under.



The derivatives network of the big banks
Source: Researchgate.net

Conclusion

UBS will rake in a profit of around CHF 40 billion by buying Credit Suisse - without any risk. The risk will be borne by the Swiss taxpayer.

"You saved the world!"

The Federal Council used emergency law without a legal basis to realize this transaction.

Through this transaction, the Swiss taxpayer saved the entire international financial system - for the time being.

Now the statement made to Federal Councillor Keller-Sutter suddenly makes sense:

> *You saved the world!*

The UBS management, the Swiss Financial Market Supervisory Authority FINMA, the Swiss National Bank SNB and the Swiss Federal Council lied to the Swiss population in mid-March 2023 in a blazing way.

In our lying world one should be careful and believe nothing and nobody.

One should always follow a principle of the American comedian George Carlin:

> *«Question everything!»*
>
> GEORGE CARLIN

ARTICLE TAGS:

Analysis Yellen, Janet Buffet, Warren Carlin, George Keller-Suter, Karin Switzerland US Credit Suisse (CS) UBS Swiss National Bank (SNB) Swiss Financial Market Supervisory Authority (FINMA)