# Swiss Bail-In Scheme: Stealing a Half Trillion Euros from Depositors

by Claudio Celani

Aug. 17—A paper published by the Swiss banking regulator FINMA is causing an uproar in Switzerland and confirms all *EIR*'s allegations against the planned "Quantitative Stealing."

The paper, released on Aug. 7 on FINMA's website (first in English, interestingly enough), states that up to 600 billion Swiss francs (EU487 billion) of depositors' money is included in the bail-in chest for the two large Swiss banks, UBS and Credit Suisse. While the Swiss population is discovering that they are on the chopping block, most citizens of the European Union have yet to wake up to the fact that the same thing is planned under the EU's bail-in legislation.

The new paper assesses how the bail-in procedures introduced in Switzerland at the end of 2012 would work in the case of the two "too-big-to-fail" Swiss banks, and is shockingly candid in stating that when all other bail-in instruments are exhausted (shares and bonds), "uninsured deposits of around 300 billion Swiss francs per bank are also potentially subject to bail-in."

The FINMA publication comes in the context of a growing movement against its bail-in scheme in Switzerland, which began after *EIR* first exposed it last Spring. The *EIR* report, picked up by the Zurich-based group Impulswelle, prompted the government to respond defensively in an official letter.

While the FINMA paper might be part of a defensive public relations strategy, the action is backfiring.

• The website insideparadeplatz.ch has exposed the bail-in scheme under the headline "300 billion of depositors' money to save UBS and CS." It notes that "The Watchdog can seize 300 billion of depositors' money from both banks, to save the two giants.... That amounts to 75,000 francs per capita" for Swiss citizens.

And further, "UBS and CS are Cyprus to the tenth power. Hundreds of billions of opaque derivatives slumber in the balance sheets of both banks. If the wind changes on the markets or the highly paid bosses lose their speculative bets, large parts of the capital could be wiped out."

The insideparadeplatz.ch article has over 60 comments by enraged readers, including some calling for separating the banks.

• Prominent journalist and author Gian Trepp wrote on his blog on Aug. 14 that "politicians are well advised to reject" the FINMA plan. He called for a small but fundamental change in the statutes of the regulatory agency, inserting "general interest of the country" in Article 5, which defines its mandate. Currently, Article 5 says that the "aim of the supervisors is ... protecting creditors, investors, the insured, as well as the functionality of the financial markets." He also called for putting FINMA functions under the National Bank, whose statutes do mention the general interest of the country.

In a previous posting on the bail-in scheme, Trepp had called for separating investment banks from commercial banks.

• The London *Financial Times* warned on Aug. 8 that if FINMA announces that bondholders are on the firing line, investors will pull their money out of Swiss banks, which will then have to pay higher yields to attract money. "Christopher Wheeler, analyst at Mediobanca, said the threat to senior bondholders posed a challenge for the way Switzerland's two big banks fund themselves. 'They face a delicate balance. On the one hand, now that senior bondholders are explicitly at risk of being bailed in, they need to issue enough low-trigger contingent capital to ensure that their providers of senior funding do not demand a higher coupon.'" A bond issued by Credit Suisse two weeks ago required a coupon of 6.5% to attract investors.

Also, despite the agreement between the American FDIC, the Bank of England, and the FINMA to establish a common, international legal framework that allows cross-country bail-ins, managed by the authorities of the home country of the banking group, there is still the danger that a judge in a U.S. Court could block the procedure. This is a major source of concern for the international bail-in mafia, which FINMA would like to solve.

Two FINMA officials expressed their anxiety over this scenario in the *Wall Street Journal* on Aug. 5. Patrick Raaflaub and Mark Branson wrote that despite the FDIC-Bank of England-FINMA agreement on bail-in guidelines, "There are a host of detailed issues underlying this general concept, however, and one thing is clear: We are not there yet."

The resolution of a systemically relevant bank cannot be accomplished by the usual bankruptcy procedures, they explain. It must be quick, top-down, and centralized. "That is why the so-called 'single point of entry' approach is increasingly gaining favor. This means bailing-in creditors at the highest point of the banking group, which is placed under the control of the home resolution authority for the duration of the process. The fresh capital that is created then gets channeled through the restructured bank's corporate structure to where it is needed."

It should be stressed that seizing depositors' money is a strategy for the entire trans-Atlantic region, and the Swiss actors are part of the London-based center of operations. With former Goldman Sachs hitman Marc Carney taking over at the Bank of England, this has become even more visible. Carney is, at the same time, head of the Financial Stability Forum at the Bank for International Settlements, which has been the institutional center for bail-in discussions, first under European Central Bank president Mario Draghi, and now, under the new head of the Bank of England.

## Will the Swiss Vote On Bank Separation?

Switzerland could soon introduce a two-tier banking system, modeled on the 1933U.S. Glass-Steagall Act, by popular initiative. The Socialist Party (SP) is investigating the possibility of a referendum, and has invited the conservative Swiss People's Party (SVP) to support it.

The initiative was presented in Bern on June 17 by Corrado Pardini, a member of the National Council (parliament), who declared: "The separation of investment and commercial banks takes away the economic risks of the securities trade from the savings and loan business, downsizes the major banks, and deprives them of the undesirable and anti-market government guarantee.

"Separating the banks strengthens customer safety and the efficiency of banks. It supports the workplace with greater credit availability. This secures jobs in industry, commerce, and services. The disengagement of the state from the investment banks eliminates the risk of ruinous bailouts. Then investment banks may go bankrupt without wiping out tens of thousands of entrepreneurs, as has been argued in 2008 with the case of UBS. If their bankruptcy threatens the international financial system, the IMF should take care of it."

Pardini's initiative was addressed in parliament on June 19, when a founder of the SVP complained that the SP had backed out at the last debate on the "too-big-to-fail" banks, and therefore the banking separation bill had failed. The SP spokesperson replied that her party has not abandoned the project: "A group led by Mr. Pardini has now introduced a banking initiative that goes in the direction of separating banks. If it is launched under the framework of the SP, you are most welcome to support it."

In Switzerland, referenda are part of the legislative process, and if a referendum passes, it immediately becomes law. It is therefore likely that such financial interests are going to use all means at their disposal to pressure politicians and prevent a referendum from taking place. If the politicians fail, citizens are ready to organize a referendum themselves.

For example, the group Impulswelle has launched a campaign for banking separation and against bail-in of the banks, which prompted a letter from Finance Minister Eveline Widmer-Schlumpf on July 17, defending the government's position. She used the usual incompetent arguments of Glass-Steagall opponents, such as that Lehman Brothers was purely an investment bank, yet its bankruptcy in 2008 triggered the financial crisis.

—*Claudio Celani*