

Update: Credit Suisse Additional Tier 1 debt.



Swiss bank UBS took over rival lender Credit Suisse on Sunday in an emergency 3 billion franc (\$3.2 billion) deal negotiated by Swiss authorities, providing one share of UBS for 22.48 shares of Credit Suisse. Meanwhile, Additional Tier 1 (AT1) debt issued by Credit Suisse was written down to zero, rendering it effectively worthless.

Credit Suisse came under fierce investor pressure last week, ultimately requiring a rescue by Swiss authorities over the weekend. As part of the rescue plan, Credit Suisse's AT1 debt—with a notional value of 16 billion Swiss francs (\$17.24 billion)—was written down to zero. This came as a surprise to their AT1 debtholders, who had believed earlier in the day that their investments would take priority over equity should the troubled lender go under.

Our portfolios

As of February 28, 2023, our portfolios' holdings in Credit Suisse's Additional Tier 1 debt are as follows:

Fund	Fund weight	Benchmark weight	Active weight
SGMF Global Opportunistic Fund	0.03%	0.00%	0.03%

What is an Additional Tier 1 bond?

AT1 bonds, also known as contingent convertibles (CoCos) were created in the wake of the global financial crisis to help banks absorb losses in the event of another crisis. As “contingent convertible” suggests, these bonds can be converted to equity shares—or simply wiped out—in times of financial hardship. These junior debts, lower in the credit hierarchy and thus less likely to be made whole in the event of bankruptcy, typically offer higher yields to compensate investors for the additional level of risk.

Outlook*

Rising interest rates have resulted in significant reductions in the value of not only AT1 bonds but also the value of banks other Tier 1 capital holdings. Tier 1 capital is held in reserve to help fund bank activities, such as client withdrawals. A decline in the value of the Tier one capital coupled with an increase in withdrawal request can put banks in the difficult position of needing to sell securities at a loss in order to fund redemptions. If the value of that capital falls too far, banks may be unable to fund bank activities.

Regulators across the globe continue their efforts to address challenges and maintain the stability of the banking system. Short-term market volatility is likely to continue as current events play out. SEI will continue to monitor development in the banking space.

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