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Switzerland: UBS Capital Injection, 2008[1]

Anmol Makhija[2]

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Abstract

UBS, the eighth-largest bank in the world and the largest bank in Switzerland in 2008, incurred write-downs totaling USD 50 billion during the Global Financial Crisis, mostly on exposures to securities linked to US subprime mortgages. On October 16, 2008, the Swiss Federal Council announced that the government would subscribe to CHF 6 billion (USD 5.3 billion) of mandatory convertible notes (MCNs) issued by UBS to restore confidence in the bank and the financial system. UBS agreed to use the government's capital to fund the equity for a special purpose vehicle, StabFund, that the central bank created to take over and manage UBS's most troubled assets. In August 2009, the government converted the MCNs to UBS common shares and sold the shares to institutional investors for CHF 5.5 billion. The government also waived the right to receive coupon payments on the MCNs in exchange for CHF 1.8 billion. The Swiss government, therefore, received approximately CHF 7.2 billion when it sold its entire stake in UBS. In November 2013, UBS paid USD 3.8 billion to the SNB to purchase StabFund. The SNB also gained interest income of USD 1.6 billion on a loan it made to StabFund.

Keywords: capital injection, Global Financial Crisis, Switzerland, UBS

[1] This case study is part of a Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering ad hoc capital injections. A survey of all the cases in this series (Rhee, Hoffner, et al. 2024) and the individual cases underlying it are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/vol6/iss3/. Rhee, Oguri, et al. (2022) surveys broad-based capital injection programs.

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Overview

This case study describes the ad hoc capital injection provided to UBS during the Global Financial Crisis of 2007–2009 (GFC). See Makhija (2024) for a study of the restructuring of UBS.

In 2008, UBS was the eighth-largest bank in the world and the largest bank in Switzerland, with more than 2 trillion Swiss francs (CHF; USD 1.8 trillion)[3] in assets (Erkens, Hung, and Matos 2009; Global Finance 2009).

Beginning in the second half of 2007, UBS incurred significant write-downs on exposures related to US real estate and other credit positions (see Figure 1). By 2009, the write-downs had increased to USD 50 billion (Mombelli 2018). The losses, mostly from UBS's exposure to the US mortgage market, led to a net loss of CHF 4.3 billion in 2007 and CHF 21.3 billion in 2008 (UBS 2008b; UBS 2009b).

In October 2008, following the collapse of Lehman Brothers in mid-September, the Swiss authorities assessed that UBS's situation was critical, given its large exposure to illiquid securitized loans that had suffered sizable market losses, deteriorating market confidence, a sharp increase in client fund outflows, and low capital base (SNB 2013). On October 16, 2008, the Swiss Federal Council,[4] Swiss National Bank (SNB), and Swiss Federal Banking Commission (SFBC) announced a series of measures to stabilize

Key Terms

Purpose: To recapitalize UBS so that it could finance the SNB's equity stake in StabFund, an SNB-controlled SPV used to take over and manage UBS's bad assets

Announcement Date	October 16, 2008
Operational Date	December 9, 2008
Date of Final Capital Injection	December 9, 2008
End Date	August 25, 2009
Source of Funding	2008 Federal budget of the Swiss Confederation
Administrator	Swiss Federal Council
Size	CHF 6 billion (USD 5.3 billion)
Capital Characteristics	Tier 1 capital in the form of mandatory convertible notes paying a 12.5% coupon and due on June 9, 2011
Bail-in Terms	No bail-in
Outcomes	The Swiss government received CHF 7.2 billion when it sold its entire stake in UBS
Notable Features	Retrospective approval for the capital injection by the Swiss parliament

[3] According to BIS, USD 1 = CHF 1.13 on October 16, 2008.

[4] The Federal Council is the executive body of the federal government of the Swiss Confederation. Since 1848, the Federal Council has always been made up of seven councilors who govern Switzerland together (Swiss Federal Council 2022).

the Swiss financial system and restore confidence. The federal government and the SNB undertook two interlinked measures to strengthen UBS's balance sheet.

First, the SNB announced a plan to establish a special purpose vehicle (SPV) named SNB StabFund Limited Partnership for Collective Investment (StabFund). UBS could then transfer up to USD 60 billion in illiquid assets to StabFund for orderly liquidation (Swiss Federal Council 2008a). According to the plan, the SNB would capitalize StabFund with up to USD 6 billion (10% of maximum total assets) provided by UBS and a nonrecourse loan of up to USD 54 billion (90% of maximum total assets) provided by the SNB (SNB 2009b).[5]

The second relief measure provided to UBS was a capital injection of CHF 6 billion (USD 5.3 billion) in the form of mandatory convertible notes (MCNs), which allowed the bank to maintain a strong Tier 1 capital ratio even after providing up to USD 6 billion to the SNB to capitalize StabFund (UBS 2008a). In August 2009, the government sold its entire stake in UBS for approximately CHF 7.2 billion, after accounting for transaction costs (UBS 2009a; UBS n.d.).

In November 2013, after StabFund fully repaid the SNB loan, UBS paid USD 3.8 billion to the SNB to purchase StabFund. The SNB also gained interest income of USD 1.6 billion over the term of the loan (SNB 2013). Figure 1 provides a timeline of important events for UBS during the GFC.

Figure 1: Timeline of Important Events for UBS during the GFC

Date	Event
August 2007	UBS reports significant write-downs on exposures related to US real estate and other credit positions in its fixed income trading business. The SFBC and SNB also increase supervision of the big banks in Switzerland and the SFBC provisionally raises capital requirements for UBS and Credit Suisse.
January 2008	The presidents of the SNB and SFBC inform the head of the Federal Department of Finance (FDF) that UBS is facing very serious difficulties and plans for government interventions are being drawn up. The SFBC initiates an investigation into the causes of the write-downs incurred by UBS.
March 2008	The SFBC calls for the resignation of Marcel Ospel, chairman of the Board of UBS.
April 23, 2008	Marcel Ospel resigns during UBS's annual general meeting.
September 20, 2008	The presidents of the SNB and SFBC separately inform the head of the FDF that the situation at UBS has deteriorated significantly following the bankruptcy of Lehman Brothers.
October 14, 2008	UBS officially requests government intervention to ensure its survival.

[5] Jean-Pierre Roth, then-chairman of the Governing Board of the SNB, said the Swiss authorities offered a similar rescue package to Credit Suisse, Switzerland's second-largest bank at the time. However, the bank declined the aid and instead raised CHF 10 billion from the private market (Gelnar 2008).

October 15, 2008	The Federal Council determines the measures to stabilize the Swiss financial system, including the details of the UBS aid package. The SNB and UBS also sign an agreement to allow UBS to transfer up to USD 60 billion of illiquid assets to an SNB-owned SPV for management and orderly liquidation.
October 16, 2008	The Federal Council and SFBC announce a CHF 6 billion capital injection into UBS. The Federal Council issues an ordinance to authorize the capital injection. The SNB announces a plan to separate illiquid assets from UBS's balance sheet, thereby relieving UBS from the risks associated with these assets.
November 5, 2008	The Federal Council sends a report to the Federal Assembly outlining the measures announced to stabilize the financial system and highlighting the importance of aid to stabilize UBS.
November 26, 2008	SNB announces that the special purpose vehicle for UBS assets is to be domiciled in Switzerland.
November 27, 2008	UBS holds an extraordinary general meeting (EGM) to approve the capital injection.
December 9, 2008	UBS issues the MCNs and places them with the Swiss government.
December 15, 2008	The Federal Assembly of the Swiss Confederation issues a decree to give retrospective approval for the capital injection.
December 16, 2008	UBS transfers the first tranche of illiquid assets worth USD 16.4 billion to StabFund.
February 10, 2009	The SNB and UBS agree to transfer USD 39.1 billion instead of USD 60 billion to StabFund.
April 3, 2009	UBS concludes the transfer of USD 38.7 billion in illiquid assets to StabFund.
July 23, 2009	StabFund's board of directors set the fund's liquidation strategy.
August 19, 2009	The Swiss government sells its entire stake in UBS for approximately CHF 7.2 billion
August 15, 2013	StabFund fully repays the SNB's loan.
November 7, 2013	UBS exercises its option to repurchase StabFund. The SNB receives USD 3.8 billion for its equity interest in StabFund and USD 1.6 billion in interest income over the term of the loan.

Source: Author's analysis.

Summary Evaluation

A parliamentary report questioned the Federal Council's role in the crisis management structure since the Council should have been more involved in preparing the rescue measures. The investigation uncovered that members of the Federal Council were not informed of UBS's troubles earlier since there were concerns that members of the Federal Council would be unable to keep the information confidential. The report alleged that, because of a lack of trust among the Federal Council's members, the Council did not deal with the financial crisis for five months, between April 2008 and September 2008. The report also expressed concern that banking supervision was inadequate since the supervisory authorities relied on information collected by third parties, such as banks, auditing firms, and rating agencies, and the supervisory authorities were not critical of the information gathered. The report criticized the council for not taking meeting minutes when it discussed matters related to UBS to preserve confidentiality (Control Committees 2010).

Some legal analysis pointed out that the Federal Council did not have a sufficient legal basis to announce the capital injection. The legal analysis highlights that under normal circumstances, such aid should have had a basis in the Swiss Federal Constitution, an approval from the parliament, and finally an ordinance from the Federal Council. However, given the urgency of the situation, the Federal Council issued the ordinance without first getting approval from the parliament, which violated the budgetary sovereignty of the legislator. The analysis says that if the parliament had not given its retrospective approval for the capital injection, it is unclear what would have happened, since the Federal Council obliged the government to inject the capital; however, the parliament is independently responsible for such decisions (Hänni 2010).

The Council's ordinance was based on Article 184, para. 3, and Article 185, para. 3, of the Swiss Federal Constitution, which discuss the Council's authority to issue ordinances to protect Switzerland's foreign relations and security (Swiss Government 1999). The Council adopted these ordinances to avoid reputational damage to the Swiss financial market and civil disturbance arising from UBS's failure. The Federal Council noted in a report to the Federal Assembly that a hesitant approach to the rescue measures would have caused lasting damage to the Swiss financial center's reputation (Swiss Federal Council 2008b). However, the legal analysis notes that any reputational damage resulting from the crisis affects all financial centers and not just Switzerland, since it was a global financial crisis (Lienhard and Zielniewicz 2009). The analysis also pointed out that Article 185(3) gives the Council the authority to issue ordinances in cases of extraordinary and unforeseeable situations, such as natural disasters, epidemics, and military threats, and although the collapse of a major bank would have led to some civil disturbance, the prevention of the collapse was likely an insufficient basis to issue the ordinance[6]. The government's legal basis for the measure is also described in Key Design Decision No. 3, Legal Authority.

At the news conference announcing the rescue measures, Jean-Pierre Roth, then-chairman of the Governing Board of the SNB, said that the rescue operation was highly unusual in its scope and reasons. Chairman Roth also said that a properly functioning banking system is essential to the Swiss economy, and it was better to carry out the rescue measures sooner rather than later under potentially more adverse conditions (Roth 2008). Later, Chairman Roth stated in a speech at the General Meeting of Shareholders of the SNB that the government was aware of the financial risk associated with the assets StabFund purchased. However, the rescue decision was solely based on stabilizing the financial system and economy and not on financial considerations (Roth 2009). The SNB later restated that the rescue measures should not be judged on their financial success, and their primary objective was stabilizing the financial system (SNB 2013).

[6] Also see Mader (2010) for a discussion of the legal basis for the ordinance.

Context: Switzerland, UBS AG, 2008–2009	
Assets	**CHF 2,000 billion** as of Dec. 31, 2008 **CHF 1,340 billion** as of Dec. 31, 2009
Liabilities	**CHF 1,974 billion** as of Dec. 31, 2008 **CHF 1,291 billion** as of Dec. 31, 2009
Deposits	**CHF 475 billion** as of Dec. 31, 2008 **CHF 410 billion** as of Dec. 31, 2009
Capital Ratio (Tier 1)	**11%** as of Dec. 31, 2008 **15.4%** as of Dec. 31, 2009
Nonperforming Loans	**CHF 4.7 billion** as of Dec. 31, 2008 **CHF 5.4 billion** as of Dec. 31, 2009
Market Share	Unknown
Banking System, % of GDP	**157.6%** as of Dec. 31, 2008 **166.4%** as of Dec. 31, 2009
Sources: UBS 2009b; UBS 2010; World Bank Global Financial Development Database.	

Key Design Decisions

1. Purpose: The government recapitalized UBS to allow the bank to fund the equity for the SPV that the central bank created to take over and manage UBS's illiquid and devalued assets.

After Lehman Brothers collapsed, there was a severe deterioration in market conditions, and capital markets dried up owing to increasing uncertainty. To restore confidence and provide stability, the Federal Council, SNB, and SFBC announced a series of measures to strengthen the Swiss financial system.

Some of these measures aimed at rescuing UBS specifically. The two biggest banks in Switzerland, UBS and Credit Suisse, had significant exposures to the US real estate market, whereas the other Swiss banks were affected by the GFC only through indirect channels. Of the two large Swiss banks, UBS was affected most, which became apparent during the third quarter of 2008. UBS was in a critical state because of an outsized exposure to illiquid and devalued assets, declining confidence, and risk of insolvency (SNB 2013). Given UBS's systemic importance, the Swiss authorities recognized the devastating impact its failure would have on the national and global financial system and economy. In 2008, UBS accounted for a third of the transactions on the Swiss interbank credit market, and its failure was expected to destabilize the entire Swiss payment system, create significant losses for other banks, and affect households and businesses. International studies estimated that the default of a bank as large as UBS would carry an economic cost of 15-30% of GDP in the short term and 60 to 300% of GDP in the long term (Swiss Federal Council 2008c).

The aid provided to UBS consisted of a capital injection and a transfer of bad assets from UBS's balance sheet to an SNB-controlled SPV named StabFund (Swiss Federal Council 2008a).

The SNB committed to fund StabFund up to CHF 60 billion, with a combination of loans and capital upon each asset transfer. It covered 90% of the costs of each asset transfer with a loan and 10% in the form of StabFund equity. Upon each asset transfer, UBS financed the SNB's purchase of StabFund equity by buying a call option to purchase the fund's equity from the SNB (UBS 2009c). The price of the call option would be set at an amount equal to the SNB's equity contribution to the fund on that date, UBS had the right to exercise the call option upon repayment of the SNB's loan (SNB 2009b). Through that mechanism, the SNB carried the risk of loss on its loan to the fund but not on its equity in the fund (UBS 2009b).

The SNB required UBS to raise capital to cover the cost of the call option. Due to the urgency of the capital injection following the announcement of the rescue package and the lack of private-sector interest, private-sector capitalization did not seem possible, and the Swiss federal government agreed to recapitalize UBS (Bäumle 2008; Swiss Federal Council 2008a). The Federal Council announced that the government would subscribe to CHF 6 billion of MCNs issued by UBS to help the bank retain a strong Tier 1 capital ratio after providing the funding to SNB to capitalize StabFund via the call option (Swiss Federal Council 2008c; UBS 2008a).

UBS raised three rounds of private capital in 2008 to strengthen its capital base. The first round occurred on March 5, 2008, when the Government of Singapore Investment Corporation Pte. LTD (Singapore GIC) and an unnamed investor from the Middle East subscribed to CHF 13 billion of MCNs paying an annual coupon of 9% (UBS 2008b). The second round took place in April 2008, with the issuance of EUR 1 billion (CHF 1.6 billion)[7] of hybrid Tier 1 capital in the form of perpetual preferred securities. The third round occurred in June 2008, following a share capital increase through a rights issue that raised approximately CHF 15.6 billion (UBS 2009b). Following the rights issue and hybrid capital issuance, UBS reported a significant increase in its Tier 1 and total capital ratio to 11.6% and 15.7%, respectively in the second quarter of 2008 (UBS 2008d). The reduction in risk-weighted assets, including the sale of a USD 15 billion portfolio of US mortgage-backed securities to BlackRock and lower risk weightings used under the Basel II framework, also contributed to the increase in capital ratios in the second quarter of 2008 (Logutenkova and Giles 2008; UBS 2008c). However, estimates in mid-October 2008 suggested that UBS's Tier 1 and total capital ratios declined to 10.8% and 14.8%, respectively (Swiss Federal Council 2008b). Although the SFBC confirmed that UBS was solvent under applicable supervisory provisions and UBS's capitalization was above the international average at the time, the Swiss authorities feared that there was a high risk that further losses could deplete the remaining capital and threaten UBS's solvency, since it was unable to raise additional capital from private markets. Given the importance of the banking system to the Swiss economy, the government was committed to restoring confidence and stability.

2. Part of a Package: The SNB helped UBS strengthen its balance sheet while providing emergency liquidity.

The SNB announced on October 16, 2008, that UBS would be allowed to transfer up to USD 60 billion in illiquid and problematic assets to StabFund for orderly liquidation. This measure strengthened UBS's balance sheet by reducing its risk-weighted assets. UBS financed 10% of the asset transfer by purchasing a call option from the SNB, which the SNB used to purchase the equity capital in StabFund (SNB 2009b). The SNB agreed to finance the remainder through a non-recourse loan of up to USD 54 billion (UBS 2008a). Through this mechanism, UBS covered the first 10% of any loss incurred by StabFund. Further, in the event of a loss on the loan provided to StabFund, the SNB possessed a secondary loss protection in the form of warrants to purchase 100 million UBS shares at nominal value (SNB 2013).

From December 2008 to April 2009, UBS transferred USD 38.7 billion of illiquid assets out of the USD 60 billion maximum permitted amount and provided USD 3.9 billion in capital. The transferred portfolio comprised more than 5,000 positions and was valued by six external valuation agents. The assets were marked down by approximately USD 1 billion to their valuation on UBS's balance sheet upon transfer. The SNB provided a loan of USD 25.8

[7] According to the ECB, EUR 1 = CHF 1.59 on average in April 2008.

billion to StabFund to finance a part of the asset transfer and inject liquidity into UBS's balance sheet. The SNB charged an interest of one-month LIBOR plus 250 bps on the loan, which was due in eight years, with the possibility to extend the maturity to 12 years. Approximately 80% of the SNB loan was US dollar denominated and refinanced through an existing swap facility with the Federal Reserve, SNB-issued debt denominated in USD, and foreign exchange reserves (Jordan 2009; SNB 2009a). The difference between assets transferred into StabFund and its financing was made up of USD 8.8 billion in contingent liabilities that did not require financing.

UBS could repurchase StabFund after the SNB loan was repaid by paying USD 1 billion in addition to 50% of the remaining StabFund equity value to the SNB (SNB 2013).

On December 20, 2008, the Swiss government also enacted the Depositor Protection Reinforcement Act to strengthen the Swiss deposit guarantee system and revise the maximum amount of deposits guaranteed to CHF 100,000 per customer (esisuisse n.d.).

Figure 2 in the Appendix provides a chart detailing the bank support measures provided to UBS by the Swiss government during the GFC.

3. Legal Authority: The Swiss Federal Council adopted an ordinance to subscribe to the MCNs on October 16, 2008, and the Swiss parliament approved it with retrospective effect on December 15, 2008.

The Finance Delegation of the Swiss parliament authorized the capital injection, and the Council subsequently adopted an ordinance to authorize the capital injection on October 16, 2008. The ordinance was based on Article 184, para. 3, and Article 185, para. 3, of the Swiss Federal Constitution. Article 184 (3) discusses the Council's authority to issue ordinances to safeguard Switzerland's foreign relations interests, and Article 185 (3) discusses the Council's authority to issue ordinances to counter existing or imminent threats of serious disruption to public order or internal or external security (Swiss Government 1999). The Council adopted these ordinances considering the urgency of the capital increase to avoid reputational damage to the Swiss financial market and civil disturbance arising from UBS's failure. A decree issued by the Federal Assembly of the Swiss Confederation on December 15, 2008, gave retrospective approval for the capital injection (Swiss Government 2008).

A few lawyers and scholars point out that if the parliament had not given its retrospective approval for the capital injection, it is unclear what would have happened since the Federal Council obliged the government to inject the capital; however, the parliament is independently responsible for such decisions (Hänni 2010).

4. Administration: The Swiss Federal Council administered the capital injection.

Although the Swiss Federal Council was not involved in preparing the rescue measures, the Council issued ordinances that obliged the government to subscribe to the MCNs issued by UBS. The Finance Delegation of the Swiss Parliament also authorized the capital injection before the Federal Council issued the ordinance authorizing the aid (Swiss Federal Council

2008a). Article 3 of the Federal Council's ordinance stated that the Federal Department of Finance (FDF) would manage the MCNs (Swiss Federal Council 2008b).

5. Governance: The decree authorizing the capital injection required the Federal Council to provide reports to the Federal Assembly.

The decree authorizing the capital injection required the Federal Council to implement changes to UBS's corporate governance and report on its management and the state's investment to the Federal Assembly (Swiss Government 2008).

6. Communication and Disclosure: The Swiss authorities emphasized the importance of saving UBS to restore confidence in the Swiss banking sector.

On October 16, 2008, the Federal Council, SNB, and SFBC issued a press release outlining the rescue measures provided to UBS. Through this press release, the Swiss authorities communicated that the measures were taken to stabilize the Swiss financial system and restore market confidence (Swiss Federal Council 2008a). The chairman of the Governing Board of the SNB also spoke at a news conference on October 16, 2008, reiterating that the measures were implemented to restore confidence in the Swiss banking sector (Roth 2008).

When the government intervention in UBS ended, Thomas Jordan, a member of the SNB Governing Board and the former president of StabFund's Board of Directors, reiterated that although the program was financially successful for the Swiss government, its objective was to stabilize UBS and the Swiss financial system (SNB 2013).

The president of the Swiss Confederation decided that no Federal Council's meeting minutes would be taken regarding the UBS case to preserve confidentiality (Control Committees 2010).

7. Treatment of Creditors and Equity Holders: Existing stakeholders were not bailed in.

There were no bail-in features in the interventions the Swiss authorities undertook to rescue UBS.

8. Capital Characteristics: The Swiss government subscribed to mandatory convertible notes due in 2011.

The Swiss government subscribed to Tier 1 capital in the form of MCNs that paid a 12.5% coupon rate. The notes would automatically convert to UBS shares 30 months after issuance. The future mandatory conversion allowed UBS to count the full proceeds as Tier 1 capital for regulatory capital purposes from the date of issuance. The government could also choose to convert the MCNs into shares earlier; however, the bank was required to pay the full coupon payment for the entire term, even if the MCNs were converted earlier (Swiss Federal Council 2008b).

The Swiss government would receive a variable number of shares depending on the conversion price, ensuring it received shares worth at least CHF 6 billion, or approximately 9.3% of UBS's shares, upon conversion (UBS 2008a). The reference price for the conversion was defined as the lower of the volume-weighted average price (VWAP) of UBS shares on SWX Europe on October 15, 2008, CHF 20.24, and the average of the daily VWAP on each of the three trading days ending on the day before November 27, 2008, when the EGM to approve the MCN issuance was held. The conversion price for the MCNs had a floor price of CHF 18.21 per share and a maximum price of CHF 21.31 per share. If the share price was higher than CHF 21.31 at the time of the transfer, the Swiss government would receive additional shares worth "approximately CHF 48 million countervalue in additional UBS shares per CHF 1 increase in the UBS share price" (UBS 2009b, 170).

On March 5, 2008, UBS issued CHF 13 billion of MCNs to Singapore GIC and an unnamed investor from the Middle East (UBS 2008b). These MCNs differed from the ones issued to the Swiss government in a couple of ways. First, the MCNs issued to Singapore GIC and the Middle Eastern investor paid a coupon of 9%, whereas the MCNs issued to the Swiss government had a coupon of 12.5%. The coupon rate reflected the cost of capital and compensated the noteholders for the value of options embedded in the conversion structure. The first MCNs issued also converted to a fixed number of UBS shares, so the noteholders were directly exposed to the risk that the UBS shares would not increase in value. The MCNs issued to the Swiss government, however, were not exposed to this share price risk since they delivered a varying number of shares upon conversion, with a floor price of CHF 18.21 delivering 329.4 million shares upon conversion.

In a report to the parliament, the Council explained that MCNs had the advantage of providing a fair and secure remuneration in the form of the coupon rate. The MCNs also allowed the government to avoid becoming a co-owner of the bank, so its participation in UBS's capital would not interfere with competition policy or bank supervision (Swiss Federal Council 2008c).

9. Size and Source of Funding: The Swiss government injected CHF 6 billion into UBS through the recapitalization.

The Swiss government strengthened UBS's capital base by subscribing to CHF 6 billion of MCNs issued by UBS. Under its agreement with the government, UBS used the government's capital to fund the SNB's purchase of equity capital in StabFund (Swiss Federal Council 2008c). The SNB required the bank to raise new capital to pay for the StabFund transaction (SNB 2008). Since UBS was unable to raise that capital in the private market, the Swiss government stepped in (UBS 2008e).

In the second supplement to the 2008 federal budget, under the budget item "Federal Finance Administration 601 A4900.0101," the Swiss government provided the funds required for the capital injection (Swiss Government 2008). The additional budget expenditure required for the capital injection was not expected to have a permanent impact on the federal debt since it was offset by net interest income of CHF 600 million per year for

2.5 years arising out of the MCNs and the proceeds gained from the eventual disposal of the government's stake in UBS.

10. Timing: The Swiss Authorities started taking measures to combat the crisis of confidence in the markets in August 2007 and provided a capital injection to UBS in October 2008.

In August 2007, following a crisis of confidence and a significant dry-up of liquidity in the interbank markets, the SNB, in coordination with other central banks, carried out liquidity injection operations. Following this, the SFBC and the SNB increased the supervision of big banks. In January 2008, the presidents of the SFBC and SNB informed the head of the FDF that UBS was facing severe difficulties, and the Swiss authorities drew up plans for a government intervention. In January 2008, the SFBC also investigated the causes of the write-downs incurred by UBS (SFBC 2008). In March 2008, the SFBC called for UBS Chairman Marcel Ospel to resign, and he resigned in April 2008 during the bank's annual general meeting.

A parliamentary report uncovered that members of the Federal Council were not informed of UBS's troubles during this phase, since there were concerns that members of the Federal Council would be unable to keep the information confidential. The report highlighted that because of a lack of trust among the Federal Council's members, the Council did not deal with the financial crisis for five months.

After the bankruptcy of Lehman Brothers in September 2008, the situation at UBS deteriorated rapidly, and UBS officially requested aid from the government on October 14, 2008 (Control Committees 2010). On October 15, 2008, the Federal Council decided on the details of the government's intervention, and on October 16, 2008, the Swiss authorities announced the rescue measures. On November 5, 2008, the Federal Council sent a report to the Federal Assembly outlining the measures announced to stabilize the financial system (Swiss Federal Council 2008c). Subsequently, on November 27, 2008, UBS held an EGM to approve the capital injection (UBS 2008a; 2008e). On December 15, 2008, the Federal Assembly of the Swiss Confederation issued a decree authorizing the capital injection.

11. Restructuring: The restructuring plan involved a liquidity injection to UBS's balance sheet and the transfer of illiquid assets to an SNB-controlled SPV.

The plan to restructure UBS's balance sheet involved a transfer of illiquid assets to an SNB-controlled SPV and an injection of liquidity that strengthened UBS's balance sheet. Further details regarding the restructuring and liquidity provision measures can be found in (Makhija 2024).

12. Treatment of Board and Management: Several members of UBS's Board of Directors and Group Executive Board resigned and voluntarily waived parts of their compensation.

UBS CEO Peter Wuffli stepped down following the announcement of large losses in 2007 (Creswell 2007). In March 2008, the SFBC called for UBS board chairman Marcel Ospel to resign, which he did in April 2008 during the bank's annual general meeting. In addition, two other board members, Stephan Haeringer and Marco Suter, also resigned. These executives voluntarily waived or repaid part of their compensation, totaling CHF 45 million (Dealbook 2008).

13. Other Conditions: The Federal Council imposed restrictions on UBS's compensation structure.

The SNB and Federal Council imposed restrictions on UBS's compensation structure for bonuses and severance pay (SNB 2009b). The Swiss authorities also set directives for corporate governance at UBS and held regular meetings with the management; however, the government did not place specific restrictions on pay structure or dividends (Voxant 2008). The SNB was also given the right to conduct additional risk management reviews at any time as long as the federal government held over a 3% stake in UBS. These risk management reviews could include participation in internal meetings regarding risk management and control at all hierarchical levels, obtaining information through questionnaires and interviews with risk managers, and access to internal data and documents related to risk management without providing prior notice.

14. Regulatory Relief: Regulatory relief was not granted to facilitate the injection.

Research did not reveal evidence that the Swiss authorities provided regulatory relief to facilitate the capital injection.

15. Exit Strategy: The Swiss government had to convert the MCNs to shares by 2011.

When the Federal Council announced the rescue measures, it also stated that the government would sell its stake in UBS to private investors as soon as market conditions would allow. The government agreed to a six-month lock-up period. However, the government could override the lock-up period if an investor agreed to take up the shares during the lock-up period. The government had to convert the MCNs into UBS shares no later than 30 months after they were issued. The Swiss Confederation could also reduce part or all of its holding by transferring the MCNs to investors (UBS 2008a).

On August 19, 2009, UBS reached a settlement with the US tax authorities regarding a tax evasion case (Irish Independent 2009). On the same day, the Swiss government announced its intention to exercise the right to convert the MCNs to equity and sell the shares received through conversion to institutional investors (UBS 2009a). The settlement of the tax evasion case improved confidence in UBS, and when the Swiss government offered its shares in UBS for sale, its offering was 4.5 times oversubscribed (UBS 2009d). The government agreed to waive the right to receive coupon payments on the MCNs in exchange for approximately CHF 1.8 billion, equivalent to the present value of the future coupon payments (UBS 2009a). The government received 332.2 million UBS shares through the conversion and placed the shares with private institutional investors for approximately CHF 5.5 billion (UBS n.d.). The Swiss government, therefore, received approximately CHF 7.2 billion when it sold its entire stake in UBS and the right to receive coupon payments on the MCNs. The Swiss government paid

UBS AG, Credit Suisse Group AG, and Morgan Stanley approximately CHF 60 million to manage the sale of its MCNs (Martinuzzi and Wille 2009).

Between 2008 and 2013, StabFund managed and wound down the transferred portfolio, primarily consisting of securities, derivatives, and loans. In mid-August 2013, the SNB loan was repaid, and on November 7, 2013, UBS exercised its right to purchase StabFund, which mainly held cash equivalents by September 2013, from the SNB for USD 3.8 billion. The SNB also earned an interest income of USD 1.6 billion over the term of the loan (SNB 2014).

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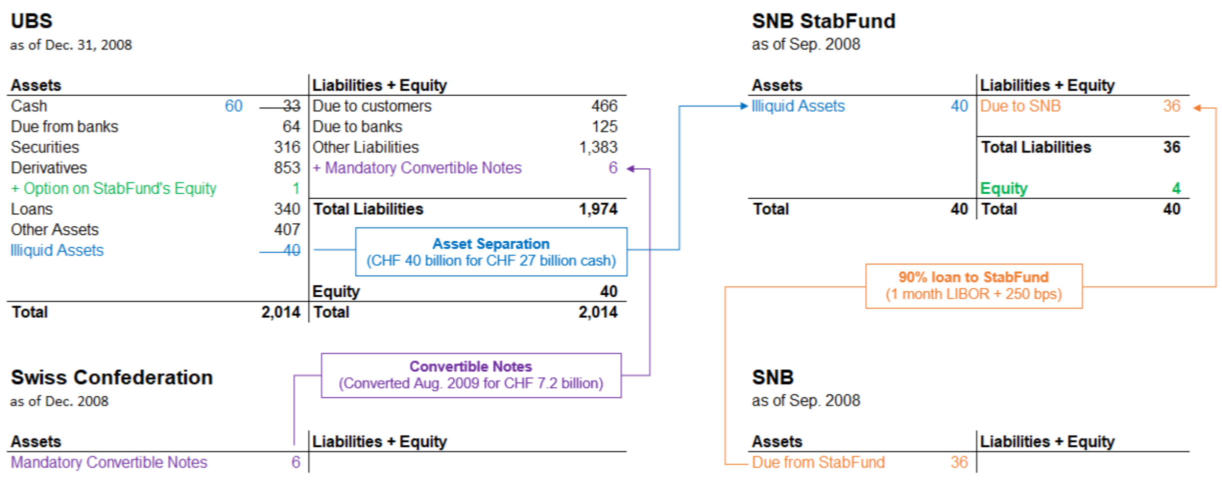
Appendix

Figure 2: UBS AG Pro Forma Balance Sheet (CHF billions)



Source: Author's analysis.