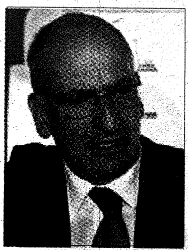
Swiss govt bails out country's largest bank



Reuters

Pascal Couchepin, Swiss President

BERN – Like Swiss chocolate, Swiss watches and Swiss knives, Swiss banking had a reputation for high standards and top quality. But Swiss banks have not been immune to the global financial crisis and the government stepped in on Thursday with a nearly $60 billion bail-out for the nation's largest bank.

Most of the bail-out money will go to create a $54 billion fund to buy bad securities backed by subprime US mortgages and other high-risk securities from UBS, whose move into risky investments departed radically from the Swiss tradition of cautious money management.

UBS and the country's second-largest bank, Credit Suisse, account for 67 per cent of US$3.1 trillion on Swiss banks' balance sheets. They employ almost half of the 109 000 people who work for banks in the country of 7.5 million.

The rescue plan includes tighter regulation for banks, including new caps on the maximum debt they can incur and closer scrutiny of management pay and incentives.

"The state serves society, and there are moments when the state has to step in," Swiss President Pascal Couchepin said.

Credit Suisse Group turned down the bail-out and said it would raise $8.75 billion on the open market. The largest amount would come from the Qatar Investment Authority, a government-controlled fund.

The government's move was a dramatic break from repeated assurances that the Swiss system was immune to meltdown. Swiss officials said on Thursday that the country's other 300-plus banks remain healthy because of large deposits from Swiss and wealthy foreigners.

The bailout announcement caused turmoil on the Swiss stock exchange, sending UBS shares down 4,93 per cent for the day.

UBS under former Chairman Marcel Ospel set the goal of becoming the world's biggest investment bank, abandoning its traditionally conservative strategies to leap into US subprime-backed investments and other high-risk instruments.

It lost more than any other European bank in the subprime crisis.

Swiss regulators said it was led into trouble by its failed in-house hedge fund Dillon Read Capital Management, which the bank shut down last year after it amassed large write-downs in US subprime mortgage securities. They blamed the bank for "insufficient attention" to risks and "overconfidence."

Ospel stepped down in April under pressure from shareholders.

The Swiss Banking Commission said that UBS has taken comprehensive measures since then to prevent new failures, and has the full support of Swiss regulators.

The bail-out will allow UBS to dispose of about US$31 billion in high-risk assets linked to the subprime market and US$18 billion in non-US securities by handing them over to a specially created fund whose sole purpose is to sell them.

Eugen Haltiner, president of the Banking Commission, told a news conference in Bern that UBS had approached the government at the beginning of the week to discuss ways of overcoming liquidity problems.

Both UBS and rival Credit Suisse have been hit by the sudden drought on the credit market in recent days, Haltiner said.

"The rest of the Swiss banking sector is healthy and strong," he said.

UBS will have to call an extraordinary shareholders' meeting in November – its third this year – to get approval for the refinancing measures. The bank has struggled to regain investor confidence in recent months after admitting that its integrated business model and lack of management oversight were part to blame for the ri investment strategie that caused the billion-dollar losses.

– Nampa-AP