BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

FEB 18 2016

Mr. Robert S. Shafir
Chief Executive Officer – Americas Region
Credit Suisse Group AG
One Madison Avenue
New York, New York 10010

Mr. Timothy P. O'Hara
President and Chief Executive Officer
Credit Suisse Holdings (USA), Inc.
One Madison Avenue
New York, New York 10010

Dear Messrs. Shafir and O'Hara:

This letter is in response to the requests, dated March 30 and July 13, 2015, that the Board permit Credit Suisse AG ("Credit Suisse"), Zürich, Switzerland, to hold its ownership interest in certain U.S. subsidiaries outside of the intermediate holding company ("IHC") established by Credit Suisse for purposes of compliance with Regulation YY. These subsidiaries include special purpose vehicles through which Credit Suisse holds U.S. real estate ("U.S. Real Estate SPVs") in a fiduciary capacity for non-U.S. investors, as well as subsidiaries that are [redacted] structures.[1]

Regulation YY requires a foreign banking organization with $50 billion or more in total U.S. non-branch assets to establish an IHC and to transfer its ownership interest in its U.S. subsidiaries to the IHC.[2] Under Regulation YY, the Board may permit the foreign banking organization to hold its ownership interest in a U.S. subsidiary

[1] Credit Suisse has requested permission to transfer only [redacted] percent of its ownership interest in the parents of these subsidiaries to the IHC.

[2] 12 CFR 252.152. U.S. non-branch assets are measured as an average of the amount reported for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q.

outside of its IHC if circumstances warrant an exception based on the foreign banking organization's activities, scope of operations, structure, or similar considerations.[3] Credit Suisse is a foreign banking organization with [redacted] in total U.S. non-branch assets as of June 30, 2015. Accordingly, Credit Suisse is required to establish an IHC under Regulation YY.

Credit Suisse engages in asset management activities in Switzerland through its wholly owned subsidiary, Credit Suisse Funds AG. As a part of its asset management business, Credit Suisse Funds AG manages two Swiss real estate funds ("Swiss Real Estate Funds") that hold U.S. real estate assets through U.S. Real Estate SPVs. The U.S. Real Estate SPVs, which hold approximately [redacted] in assets as of December 31, 2014, are passive vehicles, and their only function is to hold title to U.S. real estate assets in a fiduciary capacity on behalf of foreign investors. The Swiss Real Estate Funds are marketed solely to foreign investors.

The Swiss Real Estate Funds are structured as "contractually based investment funds" under Swiss law and are governed by a collective investment agreement, under which Credit Suisse administers the assets for the benefit of investors but holds the assets in its own name. Under Swiss law, a contractually based investment fund does not have a separate legal existence. The U.S. Real Estate SPVs are not consolidated on the financial statements of Credit Suisse. Because the Swiss Real Estate Funds hold the underlying U.S. real estate assets through the U.S. Real Estate SPVs, Swiss law requires the Swiss Real Estate Funds to directly or indirectly hold a portion of the equity interest in the U.S. Real Estate SPVs and requires Credit Suisse Funds AG to exert a dominant influence over the U.S. Real Estate SPVs. Currently, Credit Suisse Funds AG owns, in the aggregate, 100 percent of all outstanding ownership interests in the U.S. Real Estate SPVs, for the benefit of the investors in the Swiss Real Estate Funds. As asset manager, Credit Suisse receives fee income from the structure and does not provide leverage to finance the acquisition of the properties. The Swiss Real Estate Funds are bankruptcy-remote from Credit Suisse and its U.S. operations.

Credit Suisse also requests an exemption from the requirement to transfer its entire ownership interest in two U.S. subsidiaries, Stanton Equity Trading Delaware LLC and Mehetia Inc., and each of their respective U.S. subsidiaries (collectively, "Stanton and Mehetia") to its IHC. Stanton and Mehetia are indirectly held by Credit Suisse through its Cayman Islands branch and engage in alternative energy investments and similar financings. Stanton and Mehetia previously executed certain intra-group transactions [redacted] operations of Credit Suisse. Credit Suisse requests that it be permitted to transfer only [redacted] percent of its ownership interest in the parent of Stanton and Mehetia to the IHC, while maintaining a [redacted] percent minority interest in the parent of Stanton and Mehetia

[3] 12 CFR 252.153(c)(1)-(2).

outside the IHC. The request would allow Credit Suisse to attribute the remaining [redacted] percent minority interest in Stanton and Mehetia's negative equity outside of its IHC. Credit Suisse represents that, absent an exemption, [redacted] According to the request, if Credit Suisse transfers its entire ownership interest in Stanton and Mehetia to its IHC, as required by Regulation YY, the pro forma common equity tier 1 capital of the IHC could be up to [redacted] million lower than if Credit Suisse were permitted to maintain a [redacted] percent minority interest in Stanton and Mehetia outside of the IHC.

After consideration of all relevant facts, including Credit Suisse's activities, scope of operations, structure, and similar considerations, the Board has granted Credit Suisse's request to maintain its ownership interest in the U.S. Real Estate SPVs currently owned, as well as any ownership interest in similar U.S. Real Estate SPVs established in the future, outside of the IHC, subject to the condition that the Swiss Real Estate Funds and similar real estate funds established in the future not be offered in the United States or to U.S. investors. However, the Board has denied Credit Suisse's request to maintain a minority interest in Stanton and Mehetia outside of its IHC.

With respect to the U.S. Real Estate SPVs, Regulation YY provides that, in considering an exemption request, the Board may consider whether applicable law would prohibit the foreign banking organization from owning or controlling one or more of its U.S. subsidiaries through a single IHC.[4] Applicable Swiss law would likely prohibit Credit Suisse from transferring the U.S. Real Estate SPVs to the IHC. Absent an exemption, Credit Suisse would likely unwind the U.S. Real Estate SPVs and would be precluded from offering the foreign investors the opportunity to invest in U.S. real estate through the Swiss Real Estate Funds. Further, the U.S. operations of Credit Suisse have limited exposure to the U.S. Real Estate SPVs, as the assets are owned for the benefit of third-party non-U.S. investors, and the U.S. Real Estate SPVs are structured to be bankruptcy remote from Credit Suisse and its U.S. operations. The U.S. Real Estate SPVs would not appear to present U.S. systemic risk concerns, and Credit Suisse has entered into the commitment set forth in Attachment A that it has not offered and will not offer interests in the Swiss Real Estate Funds or in similar real estate funds established in the future in the United States or to U.S. citizens.

With respect to Stanton and Mehetia, however, granting the request and permitting Credit Suisse to maintain a minority interest in its U.S. subsidiaries outside of the IHC would significantly overstate the amount of regulatory capital available in the United States for the U.S. operations of Credit Suisse, in a manner inconsistent with the intent of Regulation YY to enhance the resiliency of Credit Suisse's entire U.S. operations. Although Credit Suisse has identified [redacted] that would

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[4] 12 CFR 252.153(c)(2).

result from the Board's determination not to grant the exemption request, Regulation YY contemplated that, although the capital requirements for IHCs could increase costs and reduce flexibility of a foreign banking organization that primarily manages its capital on a centralized basis, the capital requirements increase the resiliency of the U.S. operations of a foreign banking organization, the ability of the U.S. operations to respond to stresses in the United States, and the stability of the U.S. financial system.[5] Regulation YY also provided for a transition period to help foreign banking organizations manage such costs. Moreover, the Board stated in the preamble to Regulation YY that it did not expect to permit an alternative structure where the purpose or primary effect of the alternative structure is to reduce the impact of the Board's regulatory capital rules.[6] Allowing the minority interest to be held outside of the IHC would overstate the amount of available regulatory capital, which would fail to reflect Credit Suisse's U.S. footprint and undermine the goal of increasing the resiliency of Credit Suisse's entire U.S. operations.

For the reasons stated above, the Board has granted Credit Suisse's request for an exemption from Regulation YY's requirement to transfer its ownership interest in the U.S. Real Estate SPVs to its IHC and has denied Credit Suisse's request to retain a minority interest in Stanton and Mehetia outside its IHC.

The action to approve the request for an exemption for the U.S. Real Estate SPVs is based on all the facts of record and on all the representations and commitments made by Credit Suisse in the submissions to the Board in connection with the request, including the commitment set forth in <u>Attachment A</u>. These representations and commitments constitute conditions imposed in writing in connection with the findings and decisions herein and, as such, may be enforced in proceedings under applicable law.

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[5] 79 Fed. Reg. 17240, 17266 (March 27, 2014).

[6] 79 Fed. Reg. 17240, 17275 (March 27, 2014). Credit Suisse has presented its request relating principally to the significant [redacted] that could result from a contribution of 100 percent of Stanton and Mehetia to the IHC. At the same time, Credit Suisse has also referred to these potential alternatives: [redacted]

Any material change in those facts or representations could affect the approval and should be communicated promptly to Board staff.

Very truly yours,

(signed) Margaret McCloskey Shanks MMS

Margaret McCloskey Shanks
Deputy Secretary of the Board

cc: Mr. Alejandro A. Latorre
Federal Reserve Bank of New York

Attachment A
Commitment by Credit Suisse AG
to the Board of Governors of the Federal Reserve System

In connection with the request, dated March 30, 2015, to the Board of Governors of the Federal Reserve System (the "Board") for the Board's approval under section 252.153(c) of the Board's Regulation YY for an exemption from Regulation YY's requirement that Credit Suisse AG ("Credit Suisse"), Zürich, Switzerland, transfer its ownership interest in the real estate special purpose vehicles described in the request to an intermediate holding company established by Credit Suisse for purposes of compliance with Regulation YY, Credit Suisse makes the following commitment to the Board:

1. Credit Suisse has not offered and will not offer interests in the Swiss real estate funds described in the request or in any similar real estate funds established in the future in the United States or to U.S. citizens.

Credit Suisse agrees that the foregoing commitment is deemed to be a condition imposed in writing by the Board in connection with its findings and decisions on Credit Suisse's request and, as such, may be enforced in proceedings under applicable law.