



December 20, 2018

Mr. Tidjane Thiam  
Chief Executive Officer  
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Mr. Eric Varvel  
President and Chief Executive Officer  
Credit Suisse Holdings U.S.A.  
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Dear Messrs. Thiam and Varvel:

On July 1, 2018, the Board of Governors of the Federal Reserve System (Board) and the Federal Deposit Insurance Corporation (FDIC) (together, the Agencies) received the annual resolution plan submission (2018 Plan) of Credit Suisse Group AG (Credit Suisse) required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended (Dodd-Frank Act), 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 and 12 CFR Part 381 (Resolution Plan Rule). The Agencies have reviewed the 2018 Plan taking into consideration section 165(d) of the Dodd-Frank Act, the Resolution Plan Rule, the joint “*Guidance for 2018 § 165(d) Annual Resolution Plan Submissions By Foreign-*

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*based Covered Companies that Submitted Resolution Plans in July 2015*” (FBO Guidance), prior written communications provided to Credit Suisse by the Agencies in August 2014; February 2015; June 2016 (2016 Letter); and March 2017 (2017 Letter)<sup>2</sup>; as well as supervisory information available to the Agencies.

In addition, the staff of the Agencies met with Credit Suisse during the development of its 2018 Plan to answer questions regarding the Resolution Plan Rule and the FBO Guidance. Agency staffs also provided written FAQs that were made public on the Agencies’ websites.

In July 2018, the Agencies received Credit Suisse’s 2018 Plan and began their review to determine whether the 2018 Plan satisfies the requirements of section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule. The Agencies also assessed whether the 2018 Plan satisfactorily addressed each of the key vulnerabilities in resolution identified in the FBO Guidance.

In reviewing the 2018 Plan, the Agencies noted meaningful improvements over the resolution plan filed in 2015 (2015 Plan), as described below. Nonetheless, based upon their review, the Agencies have identified three shortcomings in the 2018 Plan, as discussed in section II, below. The Agencies will review Credit Suisse’s next resolution plan submission, presently due on July 1, 2020 (2020 Plan), to determine if Credit Suisse has satisfactorily addressed these shortcomings. If the Agencies jointly decide that these matters are not satisfactorily addressed in the 2020 Plan, the Agencies may determine jointly that the 2020 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

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<sup>2</sup> The 2016 Letter extended the submission date to July 1, 2017 in light of the significant restructuring the firm was then undertaking to come into compliance with the Board’s Regulation YY and the impact that certain Regulation YY initiatives were expected to have on the firm’s resolution plan and strategy. The 2017 Letter further extended the deadline to July 1, 2018.

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## I. Background and Progress

Section 165(d) of the Dodd-Frank Act requires certain bank holding companies and each designated nonbank financial company to report to the Agencies the plan of such company for rapid and orderly resolution in the event of material financial distress or failure. With respect to a covered company such as Credit Suisse that is organized or incorporated in a jurisdiction other than the United States, the Resolution Plan Rule requires that the company’s resolution plan include specified information with respect to subsidiaries, branches, and agencies, and critical operations and core business lines that are domiciled in the United States or conducted in whole or material part in the United States.<sup>3</sup>

Under the Dodd-Frank Act, the Agencies may jointly determine, based on their review, that the plan is “not credible or would not facilitate an orderly resolution of the company under Title 11, United States Code.”<sup>4</sup> For a covered company such as Credit Suisse that is incorporated or organized in a jurisdiction other than the United States, rapid and orderly resolution means the reorganization or liquidation of the company’s subsidiaries and operations that are domiciled in the United States under the U.S. Bankruptcy Code that can be accomplished within a reasonable period of time and in a manner that substantially mitigates the risk that the failure of the company would have serious adverse effects on financial stability in the United States.<sup>5</sup> Section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule provide a process

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<sup>3</sup> 12 CFR Part 243.4(a)(2)(i); 12 CFR Part 381.4(a)(2)(i).

<sup>4</sup> 12 U.S.C. § 5365(d)(4). “Covered company,” “critical operations,” and “core business lines” have the meaning given in the Resolution Plan Rule. *See* 12 CFR Part 243.2(f), (g) & (d); 12 CFR Part 381.2(f), (g) & (d). Other terms including, but not limited to, FMU, RLEN and RCEN that are not otherwise defined herein have the meanings ascribed to them in the Resolution Plan Rule or in the FBO Guidance as appropriate.

<sup>5</sup> 12 CFR Part 243.2(o); 12 CFR Part 381.2(o).

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by which the deficiencies jointly identified by the Agencies in a resolution plan may be remedied.

*Interaction of U.S. Resolution Planning With Home Country Expectations*

Foreign covered companies, such as Credit Suisse, are subject to section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule, as well as the resolvability expectations of their home country. Unlike the Resolution Plan Rule, which focuses on the company's U.S. operations and the impact of their resolution on financial stability in the United States, the home country's focus is on the resolvability of the entire group. The Swiss FINMA is responsible for developing Credit Suisse's preferred group resolution strategy, which is currently a single point of entry (SPOE) strategy. Under such a strategy, all of Credit Suisse's material operations, including its U.S. operations, would receive necessary support from the foreign parent and would not be required to enter resolution.

The preferred outcome for a failing foreign covered company is a successful home country resolution that prevents risks to financial stability in the United States, and the Agencies continue undertaking various proactive measures to support this objective. However, support from the foreign parent in stress cannot be ensured. The FBO Guidance indicates that the company should assume that the foreign parent would be unable or unwilling to provide sufficient support because the Resolution Plan Rule requires the company to address a situation where it enters bankruptcy in the United States. The Resolution Plan Rule also provides the Agencies with appropriate flexibility to address resolvability concerns specific to a foreign covered company's U.S. operations as cross-border resolution strategies for globally systemic banking firms remain untested. Ultimately, in stress, the Agencies expect to coordinate closely

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with the home country authorities to maximize the likelihood of a successful home country resolution that prevents risks to financial stability in the United States.

### Current Status of U.S. Operations

Credit Suisse reduced its size considerably within the United States following the 2007-2008 financial crisis and in response to the implementation of Regulation YY.<sup>6</sup> Credit Suisse's combined U.S. total assets, which include its U.S. branch, were approximately \$392 billion on December 31, 2008<sup>7</sup> and have been reduced to approximately \$228 billion as of June 30, 2018.<sup>8</sup> The assets of the company's top-tier U.S. intermediate holding company, Credit Suisse Holdings (USA), Inc. (CSH USA), which is the entity that, under the 2018 Plan, would enter bankruptcy in the United States, were \$142 billion as of June 30, 2018<sup>9</sup> (including the firm's lead U.S. broker-dealer, which shrank from \$326 billion on December 31, 2008<sup>10</sup> to \$110 billion on December 31, 2017<sup>11</sup>).

Beyond requiring the formation of CSH USA, Regulation YY has had other significant effects on Credit Suisse's U.S. operations. CSH USA, organized as a parent to its U.S. subsidiaries, is required to comply with the Board's enhanced prudential standards, which mandate certain capital, liquidity, stress-testing, and risk management standards to ensure safety

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<sup>6</sup> 12 C.F.R. Part 252.

<sup>7</sup> Staff estimate based on publicly available data.

<sup>8</sup> Credit Suisse Holdings (USA), Inc., The Capital and Asset Report for Foreign Banking Organizations—FR Y-7Q, As of June 30, 2018.

<sup>9</sup> Credit Suisse Holdings (USA), Inc., Consolidated Financial Statements for Holding Companies—FR Y-9C, Report Quarter 2018-06-30, Page 13.

<sup>10</sup> Credit Suisse Securities (USA) LLC and Subsidiaries, Form X-17A-5 – FOCUS Report, As of December 31, 2008, Available at <https://www.sec.gov/search/search.htm>.

<sup>11</sup> Credit Suisse Securities (USA) LLC and Subsidiaries, Form X-17A-5 – FOCUS Report, As of December 31, 2017, Available at <https://www.sec.gov/search/search.htm>.

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and soundness. In particular, the company has pre-positioned capital and liquidity in the United States to satisfy these requirements. For instance, Credit Suisse maintained a common equity tier 1 capital ratio of 22.3% as of June 30, 2018.<sup>12</sup> In addition, Credit Suisse has taken actions to comply with the Board's resolution-related rules regarding clean holding companies, stays of qualified financial contracts, and total loss-absorbing capacity, which include a requirement to maintain outstanding a minimum amount of loss-absorbing instruments, including a minimum amount of unsecured long-term debt.

*Changes Made by Credit Suisse in Response to Resolution Plan Rule*

Following submission of the 2015 Plan, Credit Suisse has modified its U.S. resolution strategy and taken important steps to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy. Credit Suisse's current U.S. resolution strategy is regional SPOE in the United States and consists of only CSH USA entering a bankruptcy proceeding, with resources deployed to recapitalize or provide liquidity support to the operating subsidiaries as needed. This deployment of resources reduces the likelihood of multiple competing insolvencies in the United States.

The steps Credit Suisse has taken to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy include: (i) establishing a subsidiary that would allocate resources to material entities during resolution as needed; (ii) pre-positioning equity capital at CSH USA and developing a framework for pre-positioning loss absorbing capacity at its material entities; (iii) identifying options for the sale of discrete businesses under different market

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<sup>12</sup> Credit Suisse Holdings (USA), Inc., Consolidated Financial Statements for Holding Companies—FR Y-9C, Report Quarter 2018-06-30, Page 46.

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conditions; (iv) developing playbooks for key FMUs and agent banks to support continued access to payment, clearing, and settlement (PCS) activities; (v) documenting a derivatives booking model and capabilities to track and monitor risk transfers and limits between legal entities; and (vi) evaluating interconnections between each U.S. branch and U.S. non-branch material entity through its legal entity rationalization (LER) process.

## **II. Shortcomings**

The Agencies identified three shortcomings in the 2018 Plan.

### **LIQUIDITY**

The Agencies found Credit Suisse to have a shortcoming in its model and process for estimating the liquidity needed to fund its U.S. material entities during a resolution. In particular, Credit Suisse's 2018 Plan did not demonstrate an RLEN framework that is sufficiently tested, controlled, and repeatable. The Agencies noted issues related to systems, data, and controls, which can undermine the reliability of the firm's cash flow forecasting capabilities as a crisis management tool and the estimation of RLEN during an actual stress or resolution. These capabilities are particularly important to an orderly resolution and Credit Suisse should take action to improve them as quickly as possible.

The firm's capability to produce RLEN estimates and cash flow forecasts has several weaknesses. For example, decentralized cash flow forecasts calculated at the business level by the business divisional finance teams must be aggregated, transposed onto spreadsheet templates, reconciled, and then consolidated by the Treasury function into projections for respective legal

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entities. The highly manual nature of this process limits the firm's ability to produce reliable and timely cash flow forecasts and RLEN estimates in stress.

Credit Suisse's cash flow projection process demonstrated weaknesses in entity coverage and back-testing controls. The firm was only able to demonstrate separate reporting for entities perceived to have the most business activity (Credit Suisse Securities (USA) LLC and Credit Suisse Capital LLC, the U.S. broker-dealers); projections for all other U.S. material entities were only produced on an aggregate basis. Credit Suisse's back-testing procedures are limited to ensuring only same day accuracy and its back-testing framework is not used as a formal driver for escalation or investigation into material misestimation.

To address this shortcoming, by the 2020 Plan, the firm should execute each of the planned RLEN and related financial modeling and operational capabilities enhancements self-identified in Exhibits 6.2-1 and 6.2-2 of the 2018 Plan. These enhancements include the improvements to the capabilities for RLEN forecasting and reporting frequencies as described in section 6.1 of the 2018 Plan, including completion of the target components and automated data flows represented in the firm's document titled: "US RRP End to End Process (CS - 1574834 - 30 Process - US RRP E2E Process)." In addition, Credit Suisse should extend back-testing of its cash-flow forecasting capabilities to capture a wider range of horizons than just same day, and the firm should also revise its red-amber-green framework to include a formal process for investigating, escalating, and remediating significant volatility in its forecasts. Finally, Credit Suisse should enhance reporting for its cash flow forecasts by reporting cash flow forecasts for each U.S. material entity, including CSH USA, Credit Suisse USA Inc. (CS USA), Credit Suisse Management LLC, and Credit Suisse AG New York Branch.

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## **GOVERNANCE MECHANISMS**

The Agencies identified a shortcoming regarding Credit Suisse's escalation triggers. As noted in the FBO Guidance, escalation triggers are designed to increase communication and coordination at the appropriate time between the appropriate U.S. and foreign governing bodies to confirm whether the foreign parent is able and willing to provide financial resources to support U.S. operations. Triggers should be based on the firm's methodology for forecasting liquidity and capital needed to facilitate the U.S. resolution strategy, thereby helping ensure timely communication and coordination between the boards of CSH USA and the foreign parent to facilitate, if needed, any preparatory resolution-related actions. In addition to informing the timing of resource requests, well-developed RLEN and RCEN capabilities can assist the firm and its foreign parent in calibrating the resources needed by the U.S. operations during resolution.

While Credit Suisse's escalation framework includes triggers based on a forecast of the firm's liquidity needed to facilitate the U.S. resolution strategy (i.e., RLEN), it does not include resolution capital forecasting-based triggers. To better ensure timely escalation of information regarding the firm's resolution resource needs, by the 2020 Plan, Credit Suisse should include capital triggers in its escalation framework that explicitly take into account management's forecasts of losses and other balance sheet changes that would occur in the resolution period (e.g., RCEN).

## **SHARED SERVICES**

The Agencies identified a shortcoming in the 2018 plan regarding the mapping of shared services that support critical operations (critical services). Credit Suisse has not completed the

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mapping to indicate how the critical services provided by the front office or service entities in India and Poland support CSH USA’s operations and core business lines. Failure to have completed the identification and mapping of critical services provided from foreign jurisdictions raises uncertainty about Credit Suisse’s ability to maintain critical services to support critical operations in the U.S. and execute its preferred resolution strategy. Credit Suisse highlighted “Ongoing Mitigation Efforts” within Section 6.2 of the 2018 plan, specifically in Exhibit 6.2-2, the firm noted enhancements to the “Service Catalogue, Global Service Matrix, and IGSM” for “BDC Services” and “Front Office Services”. Credit Suisse presented a plan to the Agencies to complete this mapping. To address this shortcoming, by the 2020 Plan, the Agencies expect Credit Suisse to complete the presented plan to map, validate, and maintain the relationships in the firm’s databases.

### **III. Home and Host Cooperation**

Resolution of the U.S. operations of a firm domiciled outside the United States with significant global activities will require substantial coordination between home and host country authorities. The Agencies’ review of the 2018 Plan highlighted the importance of this coordination with respect to legal entity rationalization—including allocation and oversight of branch activities—payment, clearing, and settlement activities, and derivatives booking practices.

*Legal Entity Rationalization.* The U.S. operations of a foreign covered company are part of the covered company’s global operations. The FBO Guidance indicated that companies should develop LER criteria designed to support their U.S. resolution strategy and minimize risk to U.S. financial stability in the event of resolution.

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In reviewing the 2018 Plan, it became apparent that rationalization of U.S. entities is linked to a foreign covered company's global legal entity framework, and that based on our experience as home country authorities for domestic firms, LER decisions in the host jurisdiction should be in alignment with the framework developed at the group-wide level. Given the global nature of the firm's operations, U.S. LER should be aligned with the company's global decision-making processes, and the Agencies would benefit from considering the views of the firm's relevant home supervisory and resolution authorities regarding these linkages. Doing so would help ensure that the U.S. LER framework remains aligned with the goals of the Resolution Plan Rule while also supporting the company's group-wide resolution strategy.

To increase the likelihood of success for both home authority and U.S. resolution strategies, the Agencies intend to engage with the firm's home country authorities and with the firm to explore ways for home country and U.S. resolvability concerns related to LER to be comprehensively addressed in the firm's U.S. resolution plan.

*Payment, Clearing, and Settlement Activities.* A loss of access with respect to the firm's PCS activities, including access to PCS providers and for PCS clients (which include affiliates), is a key vulnerability to the orderly resolution of the firm. However, similar to the LER discussion above, the firm's approach to ensuring continuity of access provided in its U.S. resolution plan should align with a continuity strategy developed at the group level that considers the objectives of the firm's group-wide SPOE resolution strategy and the Resolution Plan Rule. The Agencies intend to engage with the firm and its home country authorities to

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minimize any differences in expectations regarding the continuity of access to FMUs, particularly with regard to where that access is indirect.

*Derivatives Booking Practices.* The Agencies have observed that the FBOs are increasingly booking derivatives positions that originate from the U.S. business to non-U.S. affiliates rather than its U.S. entities. As a result, derivatives booking activities regularly occur across jurisdictions. It can be difficult to evaluate a firm's derivatives business and the related risk in resolution, without considering these activities on a group-wide basis. Uncertainty about the allocation of losses could contribute to a loss of confidence in the firm's U.S. resolution strategy. The Agencies intend to coordinate with home country authorities and with the firm on booking practices and derivatives wind-down strategies in an effort to increase the likelihood that a firm's financial and operational resources will be transparent, and positioned appropriately, at the time of resolution.

#### **IV. Remaining Projects**

Credit Suisse's 2018 Plan described ongoing resolvability enhancement initiatives that were developed in response to the FBO Guidance. It is critical that Credit Suisse continue to make progress to improve the resolvability of its U.S. operations under the U.S. Bankruptcy Code and, while resolution planning has been an iterative process, ongoing enhancement initiatives must be completed prior to July 1, 2020.<sup>13</sup> To that end, Credit Suisse should develop and submit to the Agencies by April 5, 2019, detailed project plans for (i) the completion prior to July 1, 2020 of the ongoing enhancement initiatives described in this

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<sup>13</sup> In the event impediments arise that are outside the firm's control (e.g., regulatory approvals) and Credit Suisse believes a different schedule for completion is necessary for one or more planned future actions, Credit Suisse should provide detailed support for the revised schedule, and the Agencies will determine whether a different schedule is consistent with the requirements of the Resolution Plan Rule.

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section and (ii) any additional enhancement initiatives identified in the 2018 Plan or in writing by firm management during the 2018 Plan review. These enhancement initiatives broadly focused on continuing efforts to improve financial, operational, and structural capabilities, and included but are not limited to the matters below.

Credit Suisse presented early stage frameworks for the estimation of RLEN (as described in section II) and RCEN. Effective RLEN and RCEN frameworks require sufficient data capture and reporting systems that can produce reliable and timely forecasts of resource needs in resolution. Credit Suisse should complete the build out of its RLEN and RCEN frameworks by making the necessary enhancements to increase the automation, transparency, and reliability of their forecasting. These enhancements should include improvements to the forecasting and reporting frequency of RCEN.

Credit Suisse should complete efforts identified in the 2018 Plan with respect to its LER framework. This includes improvements to the firm's policies and procedures with respect to dormant and redundant entities, as well as timely execution of planned actions to simplify Credit Suisse's large legal entity footprint within the United States. Credit Suisse should also address self-identified exceptions related to intercompany guarantees involving CSH USA, consistent with the firm's intent to conform to its existing LER criteria.

Consistent with section III above, it is important that Credit Suisse evidence over time how the firm implements its LER criteria into its ongoing operations, including how the firm's efforts facilitate resolvability of the firm in the U.S. while also supporting the company's group-wide resolution strategy.

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Credit Suisse has made progress on amending contracts with critical vendors to include resolution-friendly language. The firm should finish amending remaining contracts with critical vendors to include terms and conditions that are designed to prevent termination upon commencement of resolution proceedings.

Credit Suisse should complete the Resolution Governance key enhancement initiative identified in Exhibit 6.2-3 of the 2018 Plan. The initiative includes updates to U.S. resolution-related policies, procedures, and internal controls. The Agencies expect the firm to complete the initiative and to conduct an internal audit of the firm's adherence to those policies, procedures, and internal controls to ensure effective resolution planning and comprehensive plan submissions.

## **V. Conclusion**

Next year, the Agencies intend to clarify improvements that should be reflected in the firms' next resolution plans, which are presently due on July 1, 2020.

The Agencies note that the Plan includes an unsecured support agreement structure involving a Contingent Capital Share Purchase Agreement between the top tier U.S. entity (CSH USA) and its subsidiary, CS USA. The structure is designed to utilize one or more of the safe harbor provisions in the U.S. Bankruptcy Code. The Agencies will continue to consider the policy implications of a Contingent Capital Share Purchase Agreement and anticipate further engagement with Credit Suisse on the matter.

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The Agencies are also considering ways to streamline the resolution plan submission process to allow more time for firms to make progress on resolvability before submitting plans to the Agencies.

The resolvability of firms will change as markets change and as firms' activities, structures, and risk profiles change. The Agencies expect firms to continue to address the resolution consequences of their day-to-day management decisions.

If you have any questions about the information communicated in this letter, please contact the Agencies.

Sincerely,  
*(Signed)*

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Ann E. Misback  
Secretary of the Board  
Board of Governors of the Federal  
Reserve System

Sincerely,  
*(Signed)*

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Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation