State-Supported Takeover of Credit Suisse Faces Legal Action

Several lawsuits have been filed over the terms of last month's emergency deal to save Swiss lender Credit Suisse, which involved selling it to its larger rival UBS. The $3.4 billion rescue deal, hammered out over a weekend during a bout of turmoil in the global banking sector, upended a long-established practice of giving bondholders priority over shareholders in debt recovery.

Around 16 billion Swiss francs of Additional Tier 1 (AT1) Credit Suisse debt was written down to zero, which shocked markets. Law firms such as Quinn Emanuel Urquhart & Sullivan, Pallas Partners, and Korein Tillery, a boutique law firm specializing in complex litigation, are among those who have spoken to prospective bondholder clients about bringing claims. Shareholders are also nursing losses.

In Switzerland, a group of investors representing more than 4.5 billion Swiss francs of AT1 bonds sued the Swiss regulator in one of the largest such bondholder disputes. Their lawyers said on April 21 that the case was filed in the Federal Administrative Court in St Gallen, northeast Switzerland. The regulator, FINMA, declined to comment. The Federal Administrative Court says it is continuing to receive complaints and has "many more than four." But it has declined to name claimants or provide an ongoing tally of those lodged by bondholders or their lawyers.

In the United States, one of the first proposed class actions against Credit Suisse over alleged false or misleading statements pre-dates the rescue. In a case led by shareholder Braden Turner, investors alleged on March 16 that the bank failed to disclose it was suffering "significant" customer outflows and had material weaknesses in internal controls over financial reporting. Credit Suisse declined to comment. A string of similar proposed class actions have been filed.

In Singapore, Credit Suisse investors are in talks to sue the Swiss government over the AT1 bond writedown on the grounds it violated a free trade agreement, the Financial Times reported. The newspaper said the bondholders argue that the move breached protections against unfair state actions under the Singapore-European Free Trade Association signed with Switzerland in 2003.

The Credit Suisse bailout is not the first instance where a bank has been rescued in Switzerland. In 2008, UBS was bailed out by the Swiss government after suffering losses in the subprime mortgage crisis in the United States. The Swiss government bought a 9% stake in the bank, which it later sold.

As for the Credit Suisse case, how the legal action will play out remains to be seen. However, bondholders and shareholders are feeling the effects of the bank's financial struggles. The fallout from the rescue deal will likely continue to be felt for some time.