



University of St.Gallen

Swiss Institute for International Economics
and Applied Economic Research

Canton of St.Gallen



Enhancing Financial Stability through Contingent Capital

Lindau Meetings

29 August 2025

Anastasia Kartasheva

From insight to impact.



Global Financial Crisis, Too-Big-To-Fail and Contingent Capital

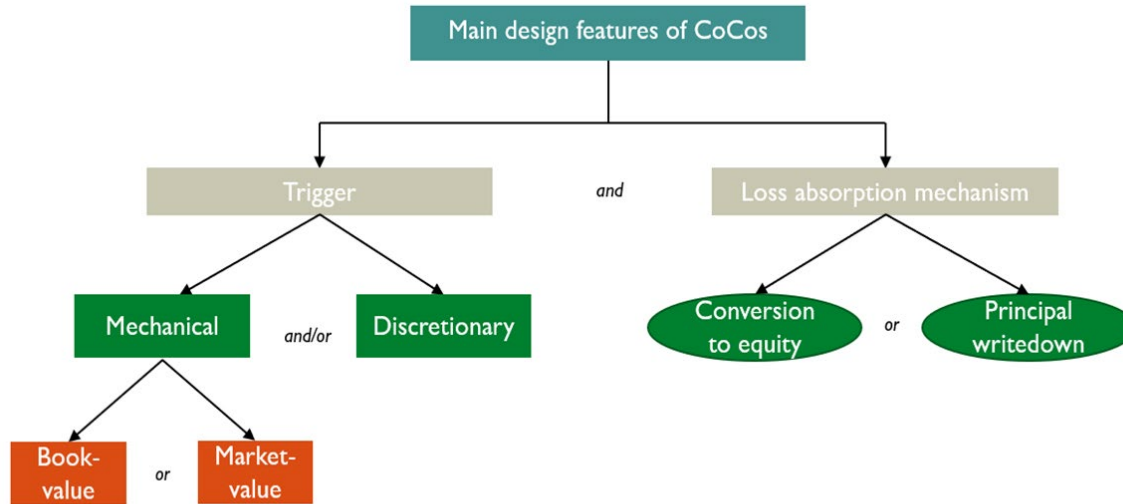
- After the 2007–2008 financial crisis, contingent convertible bonds (CoCos) were introduced to address the too-big-to-fail problem
- CoCos provide automatic recapitalization during crises without taxpayer bailouts
- Multinational collaboration of regulatory authorities
- Credit Suisse's 2023 collapse was a key test of the CoCo mechanism.



Basel Committee on Banking Supervision

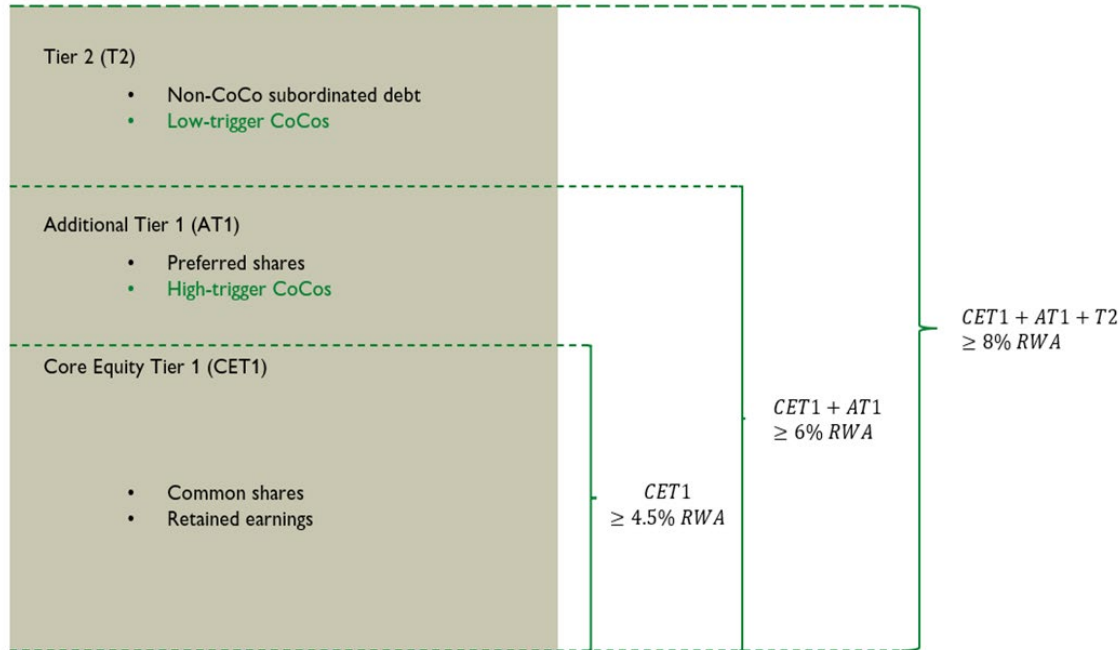
BANK FOR INTERNATIONAL SETTLEMENTS

CoCo bonds: Structure and Purpose



- ❑ CoCos absorb losses via equity conversion or principal write-down
- ❑ Two triggers: mechanical (capital ratio) and discretionary (point of non-viability, or PONV)

Position of CoCos in bank's capital structure



Aim: recapitalize going-concern banks and avoid bailouts

19 March 2023: Credit Suisse, a global bank failing



2022

- Declining market confidence
- Oct 2022: outflows of more than CHF 100bn
- Nov – March 2023: liquidity situation improves
- Home and host authorities contingency planning for resolution

End 2022

Assets: CHF 532 bn

CET1: 14.1%

T1 leverage ratio: 7.7%

LCR: 144%

March 2023

15 Wednesday

- Large liquidity outflows: banking sector stress, statement by significant shareholder, increased CCP payment obligations
- SNB provides ELA and short-term liquidity facilities totalling CHF 50bn
- SNB and FINMA confirm CS meets capital and liquidity requirements

Weekend

- Intensive communication with key host authorities

19 Sunday (press conference on TV)

- CS expected to reach PONV on liquidity grounds
- CS and UBS agree a 'state sponsored acquisition'
 - **CS shareholders received CHF 3bn in UBS shares**
 - Government grants UBS CHF 9bn second loss guarantee (following first 5bn)
 - New SNB liquidity facilities totalling CHF 200bn
 - **All CS AT1 CoCo instruments written off (CHF 16bn)**

Market and Legal Reactions

- Investors shocked: perceived breach of claim hierarchy
- EU regulators distanced themselves from FINMA's action
- Lawsuits filed claiming regulatory overreach and poor transparency

Does the CoCo Market Have Faith in Regulators?

CoCo Bonds' Write-Down Risk Is Real

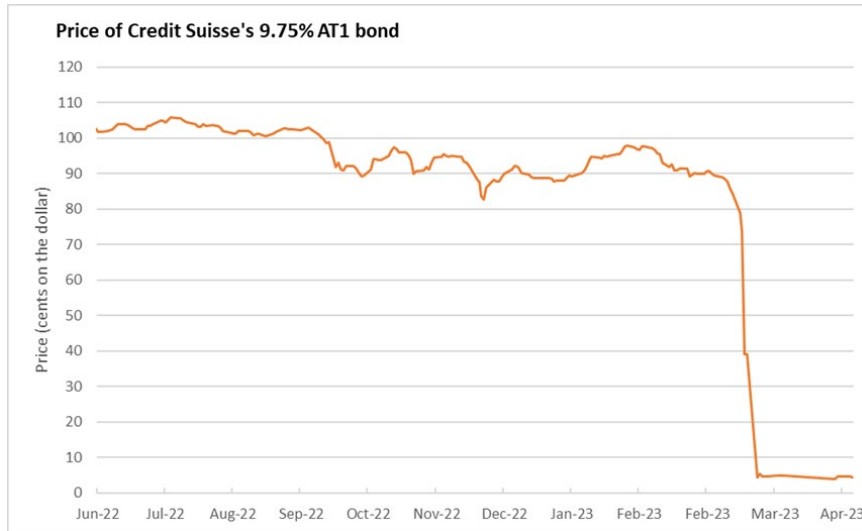
Swiss CoCo litigation may have a broader payoff

Credit Suisse Bond-Wipeout Threatens \$250 Billion Market

Deal would write down more than \$17 billion of the bank's riskiest bonds

Credit Suisse's rescue had a sting in its tail for the banking crisis. Here's what you need to know about AT1 bonds.

Lessons for Regulation



- CoCos worked as intended—enabled swift recapitalization
- Confusion around trigger mechanisms and seniority remains
- Need for simpler, more transparent CoCo contracts

Toward Better CoCo Design

Possible solution

- Issuer-triggered CoCos with pre-defined strike price
- Benefits: simple pricing, less ambiguity, reduced legal risk

CoCos and Future Regulation

- Credit Suisse CoCos absorbed losses and prevented taxpayer burden
- Regulatory reforms should strengthen and clarify CoCo frameworks
- Contingent capital remains a key tool for financial stability
- Enhances countercyclical capital and market discipline