



Shortlist 2009

Public Eye Swiss Award

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**Nominated for the Public Eye Swiss Award 2009
by Aktion Finanzplatz Schweiz:**

UBS

Based in:	Zürich
Industry:	Banking and financial services
Turnover/ Net Profit:	CHF 31'721 Mio./ CHF -2'800 Mio. (2007)
CEO:	Marcel Rohner
Owned by:	Shareholders
Workforce:	83 560 (2007)

In Brief

Pride comes before a fall: UBS, Switzerland's largest bank, wanted to climb to the very top in investment banking. It stocked up on very risky mortgage backed securities. But when the American subprime crisis became apparent the bank's early warning system failed pitifully. Since the beginning of the credit and finance crisis it has had to write off more than \$40 billion. Then the bank bought back shares in an attempt to artificially increase its own market value, further shrinking their equity capital. Now UBS needs the helping hand of the Swiss government, in the form of a bail out package worth \$60 billion. Yet the bank refuses to learn from its capital mistakes and categorically refuses more regulation and transparency.

Irresponsible Corporate Behavior

The risk management of Switzerland's largest bank failed miserably. When the US real estate market collapsed in mid-2007 and the trade in mortgage-backed securities came to a sudden halt, UBS was hit badly. In fiscal 2007 the bank posted a loss of over \$4 billion for the first time in its history. Far too long the bank had systematically ignored the hidden risks behind its earlier record profits and returns on equity. Complacency led UBS to trust the rating agencies as they overvalued its securities. Even the bank's very worst worst-case scenarios were far too optimistic. UBS failed to both register and assess its risk positions correctly. It hoarded mortgage-backed securities hoping to resell them at a profit. The trade with the riskiest tranches flourished. These securities yielded the greatest returns and drove up the bonuses. Demand for low-risk securities was close to zero. Still, the bank kept these tranches in the mistaken belief that they involved no risk. The mess that UBS has created for its employees, its customers, and the Swiss taxpayers cannot simply be blamed on a lack of caution in the US real estate market and a bonus system that rewarded short-term profits: since 2001 UBS also launched eight buyback programs. In 2006 and 2007 alone the

bank destroyed SFr.5 billion worth of shares to raise its stock price. This caused a windfall profit for shareholders, but ultimately it weakened the bank.

Consequences

UBS wrongly believed itself to be secure from risk when the US-housing bubble burst and dealt a palpable blow to the riskiest part of its securities business. In 2007 and the first half of 2008 the bank was forced to make a value adjustment of \$42.8 billion. UBS lost the trust of its customers along with SFr.140 billion worth of their assets. At the same time share buybacks further reduced the bank's equity capital. Despite billion dollar losses the bank clung to its bonus system for far too long and still awarded almost SFr.12 billion in 2007 alone. When the time came to cover the giant writedowns this urgently needed equity was no longer available. Hugely successful not long ago, UBS is now dependent on a rescue package from Swiss taxpayers. By mid 2009 the company plans to cut 5,000 jobs – 1,500 of them in Switzerland.

Current Situation and Demands

A special fund - financed by a Swiss National Bank (SNB) loan worth up to \$54 billion – buys up UBS securities that have gone bad. UBS places \$6 billion of its own money into the fund, while the Swiss government gives the bank a capital injection of SFr.6 billion in the form of mandatory convertible notes. This rescue package exposes the SNB and thus Swiss taxpayers to considerable risk because it is unclear how much the acquired securities are actually worth. If the special fund loses money, the SNB will receive a maximum of 100 million UBS shares (valued at SFr.1-2 billion, depending on the share price). In other words, SFr.7-8 billion are secured while all losses in excess of this sum will be borne by the national bank. Under the terms of the bailout deal, the SNB will have no recourse on future UBS profits. Also, the Federal Banking Commission no longer excludes further capital assistance. A UBS working group has persuaded several former top managers to return some of their bonuses. UBS wants to change its incentive system and plans to exclude its board chairman from any bonuses whatsoever and, for the first time, there will be a system of penalties to prevent rewards for short-term success. However, to prevent systemic failures in the future banks will have to be much more tightly regulated. UBS needs solid and transparent standards concerning human rights and the environment in order to operate like a responsible business.

For more information:

- <http://biblio.parlament.ch/e-docs/340232.pdf>
- http://www.nzz.ch/nachrichten/wirtschaft/aktuell/ubs_generalversammlung_1.1318850.html