Bank of England

Prudential Regulation Authority

FINAL NOTICE

To: **Credit Suisse International (FRN 146702)**
Credit Suisse Securities (Europe) Ltd (FRN 124611)

Date: **21 July 2023**

1. Action

1.1. For the reasons set out in this Final Notice, the PRA imposes a financial penalty on Credit Suisse International ("**CSI**") and Credit Suisse Securities (Europe) Ltd ("**CSSEL**" and together with CSI, the "**Firms**") of **£124,403,000 (equivalent to US$170,235,000)** for breaches of:

1.1.1. PRA Fundamental Rule 2 (a firm must conduct its business with due skill, care and diligence);

1.1.2. PRA Fundamental Rule 3 (a firm must act in a prudent manner);

1.1.3. PRA Fundamental Rule 5 (a firm must have effective risk strategies and risk management systems); and

1.1.4. PRA Fundamental Rule 6 (a firm must organise and control its affairs responsibly and effectively).

Between 1 January 2020 and 31 March 2021, or parts thereof (the "**Relevant Period**").

1.2. The Firms agreed to settle at an early stage of the PRA's investigation (the "**Discount Stage**") and qualified for a 30% discount pursuant to the PRA Settlement Policy. As a result, the financial penalty was reduced to **£87,082,000 (equivalent to US$119,165,000)**.

1.3. The matters set out in this notice (including the reasons for this action) concern failings of the Firms only and, for the avoidance of any doubt, the PRA does not make or endorse any criticism, attribution of blame, findings of misconduct or other adverse findings of fact (express or implied) in relation to any third parties. The scope of the PRA's investigation related solely to the actions or inactions of the Firms in their response to the nature of counterparty portfolios and, accordingly, in this notice the PRA does not make, and does not intend to make, any criticism (express or implied) of Credit Suisse's counterparties or the nature of their portfolios.

2. Summary of reasons for the PRA's action

Background

2.1. CSI and CSSEL were, during the Relevant Period, Category 1 PRA-authorised firms, meaning that they had the capacity to cause significant disruption to the UK financial system if they were to fail. References in this Notice to 'Credit Suisse' are to Credit Suisse group of companies ("**Credit Suisse**"). On 19 March 2023, it was announced that Credit Suisse would be acquired by UBS Group AG ("**UBS**"). The acquisition of Credit Suisse by UBS closed on 12 June 2023.

2.2. Archegos Capital Management ("**Archegos**"), a US based private investment company, had been a client of Credit Suisse's Prime Brokerage and Prime Financing (Delta One) businesses (both of which were sub-units of Prime Services) since at least 2003. In relation to the latter, Archegos entered into derivative transactions (primarily swaps) which were negotiated, monitored and overseen from the US, but were booked into UK entities. Archegos' portfolio with Prime Financing (Delta One) was statically margined, meaning the level of leverage would change over time.

2.3. Following the default of Archegos on 26 March 2021, a special committee of Credit Suisse's Board of Directors appointed Paul, Weiss, Rifkind, Wharton & Garrison LLP ("**Paul Weiss**") to conduct an independent examination of the bank's relationship with Archegos. The report resulting from this exercise was published on 29 July 2021 (the "**Paul Weiss Report**").

Risk Analysis

2.4. Prime Services Risk ("**PSR**") was a first line function within the Prime Services business of Credit Suisse that was responsible for understanding the risks associated with a client, determining initial margin ("**IM**") levels, generating and monitoring risk sensitivities, and identifying and analysing potential high-risk clients. PSR was also charged with ensuring that margin requirements and other control metrics remained within the limits set by the second line function, Credit Risk Management ("**CRM**").

2.5. CRM was responsible for all aspects of credit risk, including counterparty credit risk. Management of that risk entailed the establishment of a counterparty rating, approving credit, and monitoring counterparty credit risk over the life of transactions. This would involve the management and monitoring of counterparty exposures at a portfolio level, reviewing risk concentrations and deep dives to assess the potential impact of emerging risks.

2.6. PSR and CRM utilised two key metrics to monitor clients: potential exposure ("**PE**") and scenario exposure. The former was the primary measurement used when assessing the risk that a counterparty will default on its obligations to Credit Suisse before settlement. Prior approval would be required from CRM in the event that a client proposed a trade that would result in a breach of PE.

2.7. Prime Services clients, including Archegos, were monitored against both single factor and multi-factor stressed scenario exposure models. The latter would assess the impact of a stressed scenario (e.g. replicating the implications of the global financial crisis on the client's portfolio) on the client's

portfolio and would allow Credit Suisse to anticipate potential losses in a severe event.

Archegos' portfolio in 2020

2.8. Credit Suisse permitted Archegos' to offset portfolios held with the Firms and other Credit Suisse entities as long as these were balanced. PSR or CRM did not revisit the fact that Archegos was not subject to bias add-ons when Archegos' portfolio changed in 2020 such that its long and short portfolios did not offset one another. Instead, the Firms permitted Archegos to enter into total return swaps ("**TRS**") with Prime Financing that required lower margins than in trades with Prime Brokerage (where margins were approximately one third higher) which remained static. As a result, CSSEL was exposed to greater risk.

2.9. Although Archegos was encouraged to enter into index shorts, senior management have since acknowledged that these transactions would not have acted as an effective hedge against the concentrated nature of the portfolio, as they were general market indices.

2.10. The Paul Weiss Report states that, by the second half of 2020, Archegos' portfolio had resulted in it exceeding several of the internal risk metrics used by the Firms, including the PE limit and the single-factor and multi-factor scenario exposure limits. This was brought to the attention of senior management within CSSEL. In response, a temporary bespoke scenario appetite was proposed, which could be utilised in respect of its Severe Flight to Quality ("**SFTQ**") limit, to encompass increased exposures. This was justified on the basis that the client was scheduled to be migrated to CSI (which had a larger balance sheet and higher risk appetite than CSSEL), as part of a planned project to reduce and eventually close-down CSSEL and that this process of migration could be expedited. The matter was brought to the new Counterparty Oversight Committee ("**CPOC**") at the end of September 2020.

2.11. In early October 2020, the proposal to temporarily increase the scenario appetite to US$900 million until the end of November 2020 was sent to senior management in Risk, endorsed by senior management in CRM. A scenario appetite of US$900 million was US$100 million below that applied to 'AAA' rated central counterparties and key sovereigns within CSSEL, and US$100 million more than the standard counterparty limit within CSI.

2.12. The bespoke appetite proposal was initially prepared by New York CRM. UK CRM conducted some further analysis on, and had a discussion about, the proposal, before recommending the temporary bespoke scenario appetite for approval by senior management in Risk, who approved the appetite the same day it was circulated to them. The negatives highlighted in respect of the proposal by UK CRM were not shared with senior management in Risk as part of the approval process. Senior management in Risk explained to the PRA that they approved the proposal on the basis of the recommendation of UK CRM.

2.13. The Paul Weiss Report states that a month after the bespoke scenario appetite had been temporarily increased, CSSEL had not taken steps to reduce Credit Suisse's exposure to Archegos' portfolio. In early November it was indicated this was because there had been a focus on migrating the client from CSSEL to CSI. Internal correspondence indicates that the end of November was targeted for migration, however this was not achieved. Senior management in CRM subsequently requested

extending the bespoke scenario appetite to the end of December 2020, noting that there had been no material change to the SFTQ scenario and that the long-term plan was to move Archegos' portfolio to dynamic margining. The request was granted by senior management in Risk the morning after it was requested. On 18 December 2020, Archegos was migrated from CSSEL to CSI as part of the broader migration program. In order to effect the migration PSR agreed to give up contractual terms, which may have protected CSI.

Archegos' portfolio in 2021

2.14. The Paul Weiss Report states that in January 2021, CRM downgraded Archegos' credit rating, within Credit Suisse, from 'BB-' to 'B+'. At the same time, CRM proposed increasing Archegos' PE limit from US$20 million (which was already double the recommendation for a B+ counterparty) to US$50 million. When presented with this proposal and supporting rationale, senior management in Risk noted that this was an "*unusual set of facts*" and requested a call to discuss it. Following a brief call, which took place in early February 2021 approval for an increased PE limit of US$50 million was granted.

2.15. Later in February 2021, CRM said to senior management in PSR that they were aware of the identities of all issuers in Archegos' portfolio and that in theory a liquidation could be forced in the event that all prime brokers increased margin requirements simultaneously. Although senior management in PSR responded to the last message sent by CRM on the same day, they do not appear to have responded to this query. By this time, it should have been obvious to Credit Suisse that it was offering more favourable terms to Archegos than other prime brokers.

2.16. On 19 February 2021, PSR prepared a dynamic margining proposal for Archegos. This came shortly after Archegos was identified as a 'high priority' counterparty for dynamic margining, despite conversations about moving Archegos to dynamic margining beginning in September 2020. The terms of the proposal were considered to be "*about as tight*" as possible; if adopted, these terms would have yielded an average margin of 16.74%, leading to approximately US$1.27 billion of additional IM. This would, however, have been less than half the US$3 billion figure which PSR knew had been calculated as the amount of additional IM needed if the relevant dynamic margining rules had applied.

2.17. The matter was brought back to CPOC on 8 March 2021. At that meeting it was noted that, amongst other things, PSR had been discussing transitioning the client to dynamic margining.

2.18. The actions arising from the meeting were for the client to be transitioned to dynamic margining in the near future or for the client to post an additional US$250 million in margin by 15 March 2021. The figure of US$250 million was proposed despite the fact that the initial step up in IM, required as a result of the transition to dynamic margining, would have necessitated Archegos posting almost US$1.5 billion in IM. Following the CPOC meeting, although some efforts were made, there was no substantive progress towards transitioning Archegos to dynamic margining.

2.19. In the weeks that followed, rather than obtaining further margin from Archegos, PSR and CRM posted US$2.4 billion of variation margin ("**VM**"), being a release of margin in excess of that required as agreed between Archegos and Credit Suisse, to the client. While this was required under the relevant

terms of the agreement governing Archegos' swaps with CSI, there is no evidence that the Firms considered availing themselves of provisions under the same document that would have permitted IM to be increased with three days' notice. CSI could have availed itself of contractual terms that would have allowed for an increase in margin that may have resulted in the conversion of some, or all, of the VM into IM. This would have protected CSI in the event of a default of Archegos. The posting of US$2.4 billion of VM left CSI more exposed, than it otherwise would have been, when the default occurred.

2.20. Furthermore, on 12 March 2021, the Firms inadvertently – and contrary to a clear instruction from PSR to traders within Prime Financing to ensure that these swaps were not renewed – permitted Archegos to renew swaps in excess of US$13 billion, most of which were at an IM rate of 7.5%. This did not result in a materially worse outcome for CSI as the swaps would have otherwise matured at the end of March 2021, after the default.

The default of Archegos

2.21. On 24 March 2021, Archegos was escalated to senior management within Prime Services – despite the fact that, on the same day, CRM had confirmed that they had no immediate counterparty concerns in relation to Archegos. The Paul Weiss Report states that on the next day, the Firms considered that Archegos would be unable to meet a margin call from CSI on 26 March 2021.

2.22. Prior to 24 March 2021, some, but not all, senior individuals within the UK were not sighted on the client, despite the fact that the size of the notional portfolio (gross) held at CSI was US$23 billion as compared to US$600 million at the US entity. Credit Suisse subsequently issued a US$2.7 billion margin call, and given the failure to meet this, Archegos was served with a notice of default.

2.23. After the default, members of CRM indicated that issues flagged over several years had contributed to the significant losses incurred by Credit Suisse following the default.

2.24. Contemporaneous correspondence makes clear that individuals believed that New York CRM's activities in the run-up to the default were inadequate, and subsequently senior management in Risk noted that in relation to CRM there was a "*lack of robustness and timeliness in assessing, reporting and escalation of credit limits*.",

2.25. Subsequent analysis in mid-April 2021 identified that the default had resulted in CSI breaching its liquidity coverage ratio (combined Pillar 1 and Pillar 2), with the March 2021 month-end figure being reported at 95.5% (below the requirement that CSI's ratio of High-Quality Liquid Assets to its net cash flow was at least 100%). The breach was remedied shortly after identification.

2.26. The total losses incurred by the Firms following the default amounted to US$5.1 billion. Losses were also incurred by a number of other prime brokerages following the Archegos default. Credit Suisse's total losses being US$5.5 billion represented the largest share of the total losses, which were approximately US$10 billion.

3. Breaches and failings

3.1. For the reasons detailed at Annex A and Annex B to this Notice, the PRA considers that the Firms breached Fundamental Rules 2, 3, 5 and 6.

3.2. During the Relevant Period the Firms breached:

3.2.1. Fundamental Rule 2 because they failed to conduct their business with due skill, care and diligence;

3.2.2. Fundamental Rule 3 because they failed to act in a prudent manner;

3.2.3. Fundamental Rule 5 because they did not have effective risk strategies and risk management systems; and

3.2.4. Fundamental Rule 6 because they failed to organise and control their affairs responsibly and effectively.

In particular:

3.2.5. There was no clear culture of risk ownership in the first line. The first line risk function failed to challenge effectively the business and effectively manage risk related to Archegos and the second line in the UK, which was responsible for independent oversight of credit risk management, failed to demonstrate sufficient ownership of risk management with respect to transactions remotely booked into the Firms;

3.2.6. Ultimate responsibility for the Prime Financing business booked remotely to the Firms was allocated in accordance with the PRA's Senior Managers and Certification Regime ("**SMCR**"), with oversight exercised through use of a Service Level Agreement ("**SLA**") modelled on a Credit Suisse precedent document. However, in practice the risks related to Archegos were not appropriately escalated and resulted in inadequate oversight from the UK of risk booked into the Firms. The PRA had identified remote booking and risk management as issues in its Periodic Summary Meeting ("**PSM**") Feedback letter of 2019 and subsequently – whilst acknowledging that progress had been made, but significant work was still required – in its PSM letter of 2020;

3.2.7. The Firms failed to take sufficient steps to implement an effective risk mitigation strategy in respect of Archegos, including considering the implications of a stressed scenario on Archegos' portfolio with Credit Suisse given the fact that CRM were aware that the portfolio was focussed on a small pool of issuers, and there was a real risk that the portfolio was replicated with other brokers, and taking additional steps to mitigate this risk. Numerous tools at the Firms' disposal, such as increasing margin, imposing concentration and/or bias add-ons, refusing any further material transactions and/or refusing to extend maturing swaps, could have been utilised by the Firms to act in a prudent manner and mitigate the risks presented by the Firms' exposure to Archegos. Although there is limited evidence that the Firms availed themselves of the contractual rights that allowed for an increase in margin, they only did so with client agreement and never unilaterally;

3.2.8. The Firms agreed in relevant legal documentation to increase the threshold at which Archegos was required to disclose its level of beneficial ownership (whether in stock or

through swaps) to 20% in December 2020 (increased from 5%). While the new provision was not bespoke to Archegos and appears to have been a term used by CSI in ISDA agreements with other clients at the time, this is demonstrative of a failure to act with due skill, care and diligence given that the Firms were operating on the basis that there was a real risk that Archegos' portfolio with them was replicated in its portfolios with its other prime brokers;

3.2.9. The Paul Weiss Report states that CRM raised concerns, in August 2020, as to the increased risks associated with the Firms' approach to Archegos' portfolio but it did not put in place increased controls or oversight in response;

3.2.10. CSSEL failed to act with due skill, care and diligence when deciding to approve the temporary measurement of Archegos against the 'Bad Week Equity Crash' scenario. Credit Suisse's exposure to Archegos' portfolio in Prime Financing was not dynamically margined or exchange traded and the portfolio was – across 2020 – increasingly illiquid.[1] Risk managers the PRA subsequently spoke to acknowledged that the decision to measure Archegos against a 'Bad Week Equity Crash' scenario was a rare event;

3.2.11. The Firms failed to instil a culture within the IB that appropriately balanced the considerations of risk against commercial reward;

3.2.12. The Firms did not exercise sufficient care in applying a bespoke scenario appetite to Archegos and no consideration appears to have been made as to the appropriateness of providing a 'BB-' (Archegos' internal credit rating at the date of the decision) client with a bespoke scenario appetite comparable to the limits in place at CSSEL for a central counterparty or sovereign;

3.2.13. The Firms failed to read across the lessons from, and to address and implement relevant remediation activities identified by, a review arising from earlier issues unrelated to Archegos (the "**Remediation Review**"). Notwithstanding that the deficiencies identified were not within Prime Financing client relationships, but within Equity Derivatives, a different business unit to Prime Services, there were similarities between the earlier issues and the circumstances surrounding Archegos. A subsequent internal audit review found that certain actions had been prematurely closed and that certain others, where implemented, did not operate effectively. For example, the CPOC was insufficiently integrated into governance within the Firms, and members of CPOC did not fully appreciate their role and responsibilities;

3.2.14. The Firms failed to gather sufficient margin from Archegos and failed to exercise due skill, care and diligence given that they had identified that Archegos was able to post significantly lower margins, which remained static, in respect of its Prime Financing portfolio, and did not require Archegos to instead transact in a balanced way across its Prime Brokerage and Prime Financing portfolios;

3.2.15. CSI failed to exercise due care, skill and diligence in inadvertently allowing renewal of US$13 billion swaps (at an IM rate of 7.5%) contrary to an instruction from PSR and by failing to

[1] While the underlying equities were liquid, the concentration caused the holding to be illiquid in the context of the free float.

avail itself of its contractual right to increase margin. While CSI was contractually required to post US$2.4 billion of VM in March 2021, had it exercised its own contractual rights earlier, this may have resulted in the conversion of some or all of the VM into IM and materially improved the outcome for CSI;

3.2.16. The Firms' governance fora (including but not limited to CPOC, the CSI/CSSEL Credit Risk Committee ("**UK CRC**") and the CSI/CSSEL Risk Management Committee) failed to adequately scrutinise or discuss the risks posed to Credit Suisse by Archegos' portfolio;

3.2.17. The Prime Financing business did not exercise caution or take adequate account of risk. Furthermore, this failure was compounded by the frequent decision to extend TRS that were reaching maturity, with little or no evidence of consideration of requesting additional margin from the client;

3.2.18. Despite changes in Archegos' portfolio in 2020, the Firms permitted Archegos to continue to benefit in 2020 and 2021 from its historically balanced portfolio by way of a lower level of IM;

3.2.19. Some members of the risk function within the Firms had concerns about the ownership of risk by the first line in the US and resourcing issues within the second line in the US. In response, the UK risk function should have exercised its oversight and scrutiny responsibilities over the risk booked into the Firms with increased caution;

3.2.20. In the final quarter of 2020, the migration of Archegos to CSI delayed the implementation of risk mitigation measures during a time of increased concern about the size and risk posed by the Firms' exposure to Archegos' portfolio; furthermore, senior management in CRM characterised migration as one, but not the only, step to remediate the risks to Credit Suisse from the CSSEL limit excess of the client's portfolio. The focus on migrating Archegos to CSI not only delayed action being taken to address substantive risk, but also resulted in Archegos migrating on favourable terms (specifically in relation to (i) representations as to beneficial interests held elsewhere; and (ii) the timeframe for mandating the client to post additional margin);

3.2.21. The Firms failed to take reasonable steps to reduce risk when it would have been prudent to do so. When, in late January/early February 2021, it was apparent that Archegos would be required to post significant IM (in excess of US$1 billion) in the event they were transitioned to the dynamic margining methodology, it was noted by PSR that asking for US$1 billion *"right away"* would be *"pretty much asking them to move their business, and the revenue profile is significant*". This position was not challenged by the Firms but should have been;

3.2.22. The Firms did not prioritise the migration of Archegos to dynamic margining when it should have. As late as 15 March 2021 (11 days before default), CSI was willing to accept an additional US$250 million in IM to delay transitioning the client to dynamic margining, despite the fact that had Archegos been migrated to dynamic margining at that point in time the counterparty would have been required to post an additional US$1.5 billion in IM (notwithstanding the fact that other internal analysis had suggested a day-one increase in IM of US$3 billion);

3.2.23. From 26 March to 15 April 2021, CSI was in breach of its liquidity coverage ratio following the default;

3.2.24. The Firms' staff perceived a key risk metric as being an inadequate and unreliable means of measuring the potential exposure of hedge fund clients' portfolios and the Firms failed to promptly undertake remedial action. In addition, detailed scenario exposure was sent to CRM on an infrequent (monthly) basis, which did not provide for adequate risk monitoring of client portfolios in the second line. Issues with potential exposure and scenario limits as applied to Archegos do not appear to have been adequately responded to;

3.2.25. The Firms failed to adequately respond when internal limit breaches across both PE and scenario exposure were exceeded. There was limited evidence of escalation of these issues to global senior management; and

3.2.26. The in-person Prime Services Risk Committee ("**PSRC**") was replaced, without internal communication, by an email approval process, which may have limited the Firms' ability to provide effective oversight of risk management.

4. Reasons why the PRA has taken action

4.1. The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's general objective is to promote the safety and soundness of those firms.

4.2. The PRA places great importance on ensuring Firms can identify, manage and correct weaknesses in their management of risk. The importance of this has been clear since the global financial crisis and has been observed in communications by domestic and international regulatory authorities. Equally important is ensuring a sufficient understanding and ownership of risk within the business and lines of defence.

4.3. Firms are expected to have a deep and embedded culture of risk management. Notwithstanding the fact that culture extends beyond policies and procedures, encompassing the norms and practices created by firms' boards and management, it is vital that firms act in accordance with internal policies and procedures. Furthermore, it is a basic principle of risk management that firms must have confidence in their risk metrics and controls. Where there are questions raised as to the accuracy of risk metrics, for example arising from the implementation of a new model or following a particularly disruptive market event, these should be addressed promptly. Failure to do so erodes confidence in the value of these metrics. Where risk metrics are indicating a cause for concern these should be resolved and escalated as appropriate.

4.4. Firms are expected to robustly uphold their internal risk management policies. To ensure risk is properly managed, firms must ensure employees of all seniorities comply with such policies diligently and a firm must ensure actions taken in accordance with these policies are properly recorded. As a minimum firms must ensure that individuals responsible for internal risk management policies and their interaction with risk metrics have sufficient knowledge of the content of those policies, an understanding of the risk metrics and the practical implications of their application on a day-to-day basis.

4.5. Firms must promptly allocate time and resources to address risk mitigation. It is a basic expectation that firms must be able to learn from past experiences. Firms must appropriately manage clients

and portfolios such that significant losses are avoided. When losses are incurred, it is incumbent on firms to reflect on how management practices may have fallen short of regulatory expectations and/or were not commensurate with the risk profile and complexity of their operations. Where specific items are called out as part of the PSM process they must be addressed comprehensively and holistically.

4.6. A firm should ensure clear and transparent ownership and responsibility for risk. The effectiveness of a firm's risk management arrangements is particularly important where transactions are remotely booked into the jurisdiction and there must be clear and effective lines of escalation into relevant Senior Management Functions ("**SMFs**"). Furthermore, where internal audit identify a need for enhancements in a firm's risk management arrangements, these should be addressed promptly with appropriate steps taken to validate that they have been properly addressed. Approving remedial action where there has been insufficient improvement in a firm's risk framework undermines the integrity of the three lines of defence model.

5. Sanction

5.1. Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA's Penalty Policy, the PRA concluded that the Firm's breaches of PRA Fundamental Rules 2, 3, 5 and 6 set out in paragraph 1.1 justify the imposition of a financial penalty of £124,403,000 (equivalent to US$170,235,000).

5.2. That penalty was reduced by 30% to £87,082,000 (US$119,165,000) because the Firms agreed to settle with the PRA during the Discount Stage.

5.3. The matters set out in this notice (including the reasons for this action) concern failings of the Firms only and, for the avoidance of any doubt, the PRA does not make or endorse any criticism, attribution of blame, findings of misconduct or other adverse findings of fact (express or implied) in relation to any third parties. The scope of the PRA's investigation related solely to the actions or inactions of the Firms in their response to the nature of counterparty portfolios and, accordingly, in this notice the PRA does not make, and does not intend to make, any criticism (express or implied) of Credit Suisse's counterparties or the nature of their portfolios.

6. Annexes/appendices and procedural matters

6.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding the Firms can be found in **Annex A**. The Firm's breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA has imposed is set out in **Annex C**. Relevant procedural matters are set out in **Annex D**. The definitions used in this Notice are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

Oliver Dearie
Head of Legal, Enforcement and Litigation Division
for and on behalf of the PRA

Annex A: Facts and Matters Relied Upon

1. Background

Relevant parties

Credit Suisse

1.1 Credit Suisse is a global financial services group, headquartered in Zurich, Switzerland.

1.2 Credit Suisse operates in the UK through subsidiaries and branches of subsidiaries. Credit Suisse's home state regulator and consolidated group regulator is the Swiss Financial Market Supervisory Authority ("**FINMA**") in Switzerland. On 19 March 2023, it was announced that Credit Suisse would be acquired by UBS. The acquisition of Credit Suisse by UBS closed on 12 June 2023.

CSI & CSSEL

1.3 CSI and CSSEL were, during the Relevant Period, Category 1 PRA-authorised firms, meaning that they have the capacity to cause significant disruption to the UK financial system if they were to fail.

1.4 As part of a rationalisation of Credit Suisse's corporate structure, the operations of CSSEL were in the process of being wound down from 2019, with clients migrated from CSSEL to CSI. As part of this process, all of CSSEL's core business has now transferred to CSI.

Archegos

1.5 Archegos is a US-based family office, which defaulted in March 2021, leading to total losses of approximately US$10 billion across a number of prime brokers. Credit Suisse incurred approximately US$5.5 billion in losses following Archegos' default, of which US$5.1 billion were booked to the Firms.

2. Overview of the Firms and transactions with Archegos

2.1. The Global Markets business was one of the business lines within the Investment Banking ("**IB**") division of Credit Suisse.

2.2. The Global Markets business was made up of several business units, including the Equities sales and trading unit, the Credit business, the International Trading Solutions business, and the Client and Content business.

2.3. Prime Services sat within the Equities sales and trading unit. Prime Services provided financing, custody, clearing and advisory services to hedge funds and institutional clients.

2.4. Prime Brokerage and Prime Financing were sub-units within Prime Services.

Prime Brokerage

2.5. Prime Brokerage provided multi-currency financing, clearing, settlement and custody of securities transactions, and assisted clients in managing transactions through trade matching and settlement.

2.6. In doing so, Prime Brokerage would lend clients: (i) money to buy shares of a stock or asset, which Credit Suisse then held in custody for the client as collateral (noting that the clients owned the underlying positions); or (ii) shares of a stock or asset to enable the client to sell the shares short and raise cash, which the client may deposit with Credit Suisse.

2.7. Prime Brokerage used a dynamic margining model to set and adjust the margin – known as portfolio financing haircuts in Prime Brokerage, which were risk adjusted over time – over the life of the trade based on market movements and other factors. This is distinct from 'static margin'. Broadly, the distinction between dynamic and static margining model can be summarised as follows:

2.7.1. Both models utilise "margin", which is the term used to describe the proportion of the stock or asset purchase price which the client must cover. Margin tends to be expressed as a percentage of the notional value of the trade;

2.7.2. Static margin is calculated using the notional value of the transaction when it is entered into. The IM is fixed at the trade's inception on the basis of the then-current value of the market position and remains unchanged; and

2.7.3. Dynamic margining tracks the trade's subsequent developments "dynamically" and the margin is re-calculated based on changes to the value of the market position (amongst other things, taking account of the client's creditworthiness and the potential risk factors of the client's portfolio) – this is referred to as 'mark-to-market'.

Prime Financing

2.8. Prime Financing provided synthetic financing via its 'Delta One' desk. The TRS it entered into allowed a client to obtain exposure to the underlying equities of a trade without owning the actual equities because Credit Suisse would pay the client the amount of the increase in the price of the equity in question, and the client would pay the amount of the decrease. The objective of the 'Delta One' desk was to achieve market-risk neutrality. Therefore, as soon as it executed a TRS with a counterparty, the desk would purchase either the underlying stock in question or enter into an offsetting swap. As a result, the desk would have exposure to the 'short' leg of transaction with the counterparty and have hedged the 'long' exposure by purchasing the underlying or entering into an offsetting swap.

2.9. Given daily price movements over the life of a swap portfolio, two types of margin were required:

2.9.1. IM, which refers to the collateral the counterparty needs to post when the trade is executed. If a client defaulted, the IM was designed to cover potential future adverse market movements from the point of default until Prime Financing could sell or re-hedge. During the lifetime of the trade, the Firms could raise the IM by providing notice to the counterparty; and

2.9.2. VM, which refers to top-up collateral posted to cover the transacting parties' exposure based on movements in the value of the parties' positions during the life of the trade.

Archegos' transactions with Prime Services

2.10. Archegos conducted most of its business through Prime Services in New York, which offered hedge fund clients and institutional clients *"execution, financing, custody, clearing and risk advisory services across various asset classes through synthetic financing and listed OTC derivatives."* These services were provided by both the Prime Brokerage and Prime Financing sub-units.

2.11. Certain of Credit Suisse's traders outside of the UK were authorised to book transactions into the Firms in accordance with the Firms' entity-specific risk and operational limits, and the policies, regulations and procedures relevant to their trading activities. This process is referred to as remote booking.

2.12. When a transaction is remotely booked, the contractual relationship is between the counterparty and the legal entity into which the transaction is booked, and that legal entity holds the risk of the transaction on its balance sheet (subject to any risk offsetting, such as through hedging or back-to-back trades).

2.13. Although the Archegos client relationship was managed through the Prime Services team in New York, the TRS in its Prime Financing portfolio were remotely booked into the Firms because they could not be traded in Credit Suisse Securities (USA) LLC ("**CSSU**"). As a result, even though US CRM and PSR had primary responsibility for the management of Archegos' counterparty risk, all credit requests in respect of those TRS had to be approved by a UK CRM credit officer before they could be booked into the Firms.

2.14. Archegos' trades with Prime Financing used static margin. Accordingly, unlike under a dynamic margin model, the IM remained static during the lifetime of a trade. One consequence of this was that if the value of the underlying stock increased, then the margin, as expressed as a percentage of the value of the overall position, decreased. This process, which has been referred to as 'margin erosion', increased the risk the trade posed to the Firms. To guard against this risk, Prime Services was directed, pursuant to internal policy documents, to monitor and amend margin levels to respond to margin erosion.

2.15. The risks of margin erosion were particularly acute in the TRS that Prime Financing typically provided to Archegos (also known as 'bullet swaps'). Unlike regular equity swaps, which reset the IM required on a regular mark-to-market basis, the amount of IM of these bullet swaps remained – if no action was taken by the Firms to raise the IM – the same for 24 months. As a consequence, during the lifetime of the TRS, if the client's position appreciated, absent any contractual mechanism to reset the value of the IM posed on the increased notional value of the transaction, the percentage value of IM would reduce proportionally.

3. Risk controls in the Firms

3.1. The Firms' operated a 'three lines of defence' model.

Prime Services Risk

3.2. Under this model, the Prime Services business had primary ownership of risks arising out of business undertaken by it. The business was supported by an in-business risk function, PSR, whose staff were primarily situated in New York, Dublin, London and Hong Kong. Management of the PSR staff with responsibility for risk controls related to Archegos were based in New York. PSR's responsibilities included: monitoring and, where necessary, escalating, client risk; this included ensuring that swap trading remained within the limits assigned by other control functions (and specifically, CRM, as discussed below). In addition, PSR was charged with calculating the margin requirements of any proposed client transaction. The risk management activities of PSR also encompassed taking an active role in the management of credit, market and operational risk.

3.3. One means by which PSR would manage credit risk would be through the daily monitoring of PE.

Prime Services Risk Committee

3.4. Senior representatives of the business and PSR were required, pursuant to the internal guidelines, to come together as the PSRC to approve certain 'non-standard' transactions on a quarterly basis. This would include where the counterparty had limited portfolios with large and concentrated single name exposures and large ownership stakes. The PRA understands that the PSRC meetings were discontinued in 2020; the reason for this is unclear. The requirement for approval of 'non-standard' transactions by PSRC members continued, however, with such approvals being documented by email.

Credit Risk Management

3.5. Alongside PSR, CRM, a second line function, provided independent risk oversight. This included ownership of the Group Credit Risk Appetite Framework and the ability to veto any credit risk that might represent an unacceptable credit risk to Credit Suisse. Its responsibilities extended to establishing information requirements for appropriate portfolio monitoring.

3.6. CRM would also conduct an annual credit review of all counterparties, which would result in a counterparty being given an internal credit rating. Part of this process involved Credit Suisse's hedge fund rating model ("**HFRM**"), which would utilise both quantitative and qualitative assessments to result in a rating of the counterparty. The counterparty would then be rated from AAA (lowest probability of default) to CCC (a greater probability of default).

3.7. In addition, CRM utilised two means of quantitative control to monitor clients: (i) PE and (ii) scenario exposure.

Potential Exposure

3.8. PE is a non-stressed calculation to assess, to a 95% confidence, Credit Suisse's maximum exposure in the event of a counterparty defaulting. PE therefore provided a measure of the sufficiency of the margin provided by a counterparty.

3.9. PSR was charged with ensuring for each counterparty that credit exposure remained within CRM set PE limits and aligned with margin terms agreed by CRM. Any trade that surpassed a PE limit required approval from CRM, with breaches of open PE limits (and the length of time they have been open) regularly circulated. Unresolved breaches were escalated to CRM senior management.

3.10. In January 2020, Credit Suisse transitioned to a new PE model. The PRA understands that this model was regarded as a more conservative measure and concerns were expressed that the underlying data and calculation process was giving rise to incorrect and overstated results.

Scenario exposure

3.11. Credit Suisse utilised two types of scenario exposure limit, both of which are a stressed form of analysis; meaning they consider the impact of (depending on the directional risk the counterparty is exposed to) a significant loss or appreciation in value. The two metrics utilised were: (i) single factor and (ii) the multi-factor SFTQ.

3.12. The scenario exposure limits identified the maximum exposure that was acceptable to Credit Suisse following a severe event scenario. A breach would occur in the event that the scenario threshold, which was applied to the counterparty's portfolio, was exceeded. This was tested on a monthly basis. Breaches above US$125 million were to be escalated to relevant IB senior management and breaches above US$1 billion were to be escalated to global senior management.

Single factor measurements

3.13. Credit Suisse utilised a range of single factor scenarios, most relevant to this case are the 'Severe Equity Crash' and 'Bad Week Equity Crash' scenarios. The parameters of each are set out below.

	"Severe Equity Crash"	**"Bad Week Equity Crash"**
Developed markets	One-month 30% decrease in equity prices	One-week 20% decrease in equity prices
Emerging markets and Japan	One-month 45% shock	One-week 30% shock

3.14. The 'Severe Equity Crash' scenario was used as a standard measure for all Prime Services counterparties, with the scenario run and reported by CRM, including in UK risk governance forums. The 'Bad Week Equity Crash' scenario was used as a supplemental metric for certain clients where it was deemed a more plausible stress measure (e.g., where clients had a highly liquid portfolio of exchange-traded derivatives, often subject to dynamic margining rules). Where the 'Bad Week Equity Crash' scenarios were used, they were run and reported by PSR in their weekly reporting. The 'Bad Week Equity Crash' scenario was not formally used in CRM Reporting as a means of monitoring hedge fund clients in London. The PRA understands that monitoring hedge fund clients against the

'Bad Week Equity Crash' scenario would be rare in practice.

Multi-factor measurements

3.15. The SFTQ scenario represented the combination of a number of other scenarios in an attempt to stress test a portfolio in response to (for example) a flight to US Dollars and equity and commodities prices crashing.

3.16. Breaches of the SFTQ scenario were governed by the CSI/CSSEL Risk Management Committee ("**RMC**") (as discussed below) and were flagged in weekly scenario reports which were to be included in CSI/CSSEL RMC committee materials, unless cured or otherwise rectified within a 30 business-day window.

Types of quantitative risk controls

3.17. Credit Suisse employed three types of quantitative risk controls: limits, guidelines and tolerances. This is summarised in the table below.

Control Type	Breach Potential	Breach Response	Mitigating Action
Limit	Unlikely	Immediate escalation and mitigating action	Required
Guideline	Possible	Investigation and action plan to reduce or justify new guideline level	Preferred
Tolerance	Likely	Investigation, management discussion and review	Optional

3.18. The CSI/CSSEL Credit Risk Appetite Framework made clear that in certain circumstances a 'bespoke appetite' may be approved. Including where there is "*a pre-defined plan or strategy for reducing the exposure, or where there is a compelling business rationale with appropriate risk mitigation.*"

3.19. PE and SFTQ scenario analysis were both deemed to be limits. The single factor scenarios (i.e. 'Severe Equity Crash' or 'Bad Week Equity Crash' scenarios) were deemed to be guidelines. This is summarised further in the below table:

		Governance	Control Type	CSi ($m)	CSSEL ($m)
Potential Exposure (PE)	CCPs & Key Sovereigns	UK CRC	Limit	2,400	800
	Key FIs	UK CRC	Limit	800	400
	All other counterparties	UK CRC	Limit	600	350
SFTQ Scenario	CCPs & Key Sovereigns	RMC	Limit	2,700	1,000
	Key FIs	RMC	Limit	1,400	750
	All other counterparties	RMC	Limit	800	400
Single Factor Scenario	CCPs & Key Sovereigns	UK CRC	Guideline	2,200	800
	Key FIs	UK CRC	Guideline	1,200	500
	All other counterparties	UK CRC	Guideline	750	350
Settlement Risk		RMC	Limit	2,800	1,800
Loan Underwriting		RMC	Limit	1,600	-

4. The Firms' committee structure

4.1. Governance and monitoring of risk at Credit Suisse was carried out by a number of committees organised along divisional and regional lines. In relation to Credit Suisse's relationship with Archegos there were, through the Relevant Period, several relevant committees.

4.2. The UK CRC had responsibility for the "*implementation of the credit risk framework; reviewing merging risks and assessing the impact of any issues that impacted the credit portfolio, including counterparty, sector and concentration*". This included responsibility to escalate (amongst other things) emerging risks and relevant limit breaches, primarily to the CSI/CSSEL RMC.

4.3. The CSI/CSSEL RMC could escalate matters to either the CSI/CSSEL Executive Committee, or the CSI/CSSEL Board Risk Committee.

4.4. The UK CRC also had a global and divisional line of escalation through the IB CRC which had responsibility for overseeing "*credit risk matters within the Global Investment Banking division*" (which included the IB activities of the Firms). Among other more specific responsibilities in its terms of reference were: "*monitoring the credit risk appetite framework, associated limits and breaches thereof; as well as reviewing scenario analysis and reviewing/approving related policies*."

5. The relationship between the Firms and Archegos

Early relationship

5.1. Credit Suisse's relationship with Archegos began in 2003, and Archegos became a Prime Services client in 2005.

Key relationship events between 2017 and 2019

5.2. In 2017 there were changes to Archegos' Prime Brokerage portfolio which triggered an automatic 10% directional bias add-on (pursuant to internal Credit Suisse policies) that would have required Archegos to post additional margin. However, Credit Suisse decided not to request the additional margin and to remove the bias-add on subject to Archegos' combined portfolio bias not becoming unbalanced and exceeding 75% long or short. However, the Paul Weiss Report states that over subsequent years this bias, set by Credit Suisse, was exceeded.

5.3. Over the course of 2018, Archegos' aggregate portfolio was mostly long-biased, with a primarily short position in swaps. PSR carried out weekly monitoring of Archegos' portfolio and CRM noted in its 2018 annual review that PSR had requested that Archegos post additional margin. This resulted in US$20 million of margin being posted. At the time, CRM's annual review also noted that it considered that the portfolio had become quite concentrated.

5.4. In June 2018, for the first time in its relationship with the Firms, Archegos' portfolio exceeded the prescribed US$250 million maximum scenario under the 'Severe Equity Crash' threshold, however CRM's view was that that "*this breach did not present an "accurate picture" of the client's risk because the scenario exposure did not take account of the client's offsetting short equity swap positions in Prime Financing*". Credit Suisse's subsequent 2018 credit review noted that "*CRM initiated discussions with PS Risk regarding reducing risk and/or increasing margins to offset the large absolute scenario exposures when excluding offsets*."

5.5. In 2019, Credit Suisse decided to lower Archegos' swap margins. In the view of Credit Suisse, a significant risk mitigator was Credit Suisse's contractual right to terminate a swap on a daily basis and to impose a discretionary change to the amount of margin. However, subsequent email correspondence illustrates that Credit Suisse was reluctant to implement these rights in practice due to the concern that invoking such rights would damage Credit Suisse's relationship with its client.

5.6. In September 2019, the PRA sent the Firms a PSM feedback letter. This letter set out, in the context of a risk incident relating to an outsized equity derivatives position remotely booked to CSI, concerns about the effectiveness of the UK front office booking controls and associated risk management arrangements and highlighted the need for more proactive controls and transparent oversight by the UK risk function. In response, in 2019 the Firms implemented a programme of work with the aim of strengthening the Firms' remote booking model and associated governance framework. Subsequent PRA correspondence in the 2020 PSM feedback letter acknowledged this while confirming that significant work was still required.

5.7. Later that year, CRM's November 2019 annual credit review of Archegos recommended that Credit Suisse maintain an internal credit rating of 'BB-' for Archegos and more than double the fund's PE limit. By the end of 2019, Archegos' portfolio in aggregate was slightly short-biased, driven by a long cash equities portfolio and a marginally larger short swaps portfolio.

6. Key relationship events in 2020

6.1. Archegos' portfolio changed substantially in 2020 but the PRA has seen limited evidence of this being remarked upon within Credit Suisse's control functions. Throughout this period, PSR had regular conversations with Archegos about the nature of its portfolio.

6.2. In April 2020, following a decline in net asset value ("**NAV**") that triggered a termination event under relevant contractual obligations, CRM raised a query with PSR observing the following about Archegos' portfolio:

6.2.1. The portfolio was fundamentally a long/short equity portfolio with a multi-year investment horizon on core long positions;

6.2.2. Short positions were utilised to hedge the volatility in the leveraged long cash Prime Brokerage portfolio of primarily large and mega-cap equities;

6.2.3. Archegos was in the process of cycling out of large tech stocks into financial stocks; and

6.2.4. Trading with CSSEL was primarily in shorts, with an index being the largest position.

6.3. By the end of 2020, Archegos' portfolio had changed and the above characteristics were no longer reflective of its portfolio. For example, by 1 September 2020 Archegos had US$7.18 billion of long

positions compared to US$2.27 billion of short positions across Prime Brokerage and Prime Financing. On the same date, PSR's Weekly Client Update reported that the average margin rate of swaps within Archegos' Prime Financing portfolio was 5.9%, and that Prime Financing had executed some short index positions with Archegos at margins as low as 4%. By October 2020, over 70% of the gross market value ("**GMV**") of Archegos' portfolio was made up of investments that did not feature significantly in the portfolio in January 2020. Some of the increased long exposure represented a 20% increase in exposure to emerging markets. The PRA has seen limited evidence that PSR or CRM remarked upon this at the time, although in early July 2020, an 'emerging markets update' noted the increased long exposure and an 'emerging markets update' at the end of June 2020 referred to a number of securities that Archegos had taken positions in as being illiquid; although by November 2020 US$500 million of illiquid securities had moved away from Credit Suisse.

6.4. In November 2020, the nature of Archegos' portfolio was remarked upon in correspondence between the business and PSR. At the Firms' request, Archegos continued to enter into index shorts, but these positions did not act as an effective hedge to rebalance the portfolio.

6.5. Despite these changes to Archegos' portfolio, until September 2020 Credit Suisse referred internally to the portfolio being one that was, just as it had historically been, balanced across long and short positions. This had been one of the key reasons why margin terms were lower, given the expectation that positions in CSSEL and CSSU would offset; such that it was reflected in Credit Suisse's Prime Brokerage Agreement which allowed for the positions to be netted across the two entities. This arrangement had historically not required any additional margin add-on as a result of bias. Although the September 2020 CPOC noted that a potential bias-add on was "*being re-visited*" the PRA has not seen any evidence of this being actioned. However, during 2020 the portfolio had a clear long bias, which ranged from 68% long to 95% long in, respectively, February and June 2020. This was largely attributable to the growth and directional change of its swaps portfolio throughout 2019 and 2020 which resulted in Archegos' swaps portfolio adding to its long bias in Prime Brokerage, where it had once offset it. From August 2020 to the end of the year the portfolio was regularly 75% long.

6.6. By August 2020, not only was Credit Suisse's offsetting rationale for lower margins no longer objectively justifiable by reference to the portfolio, but the Firms also permitted Archegos to enter into TRS with CSSEL that required a lower margin at the outset and remained static. As a result, Credit Suisse required Archegos to post significantly lower margins than if Credit Suisse had required Archegos to transact in a balanced way across the Prime Brokerage and Prime Financing business units.

7. Risk metrics in 2020

7.1. As described at paragraph 3.11 onwards above, Credit Suisse measured Archegos' portfolio against several types of threshold monitoring. The Paul Weiss Report states that, from 2020 the Firms found that Archegos' portfolio had continually reached various limits applied to it by Credit Suisse.

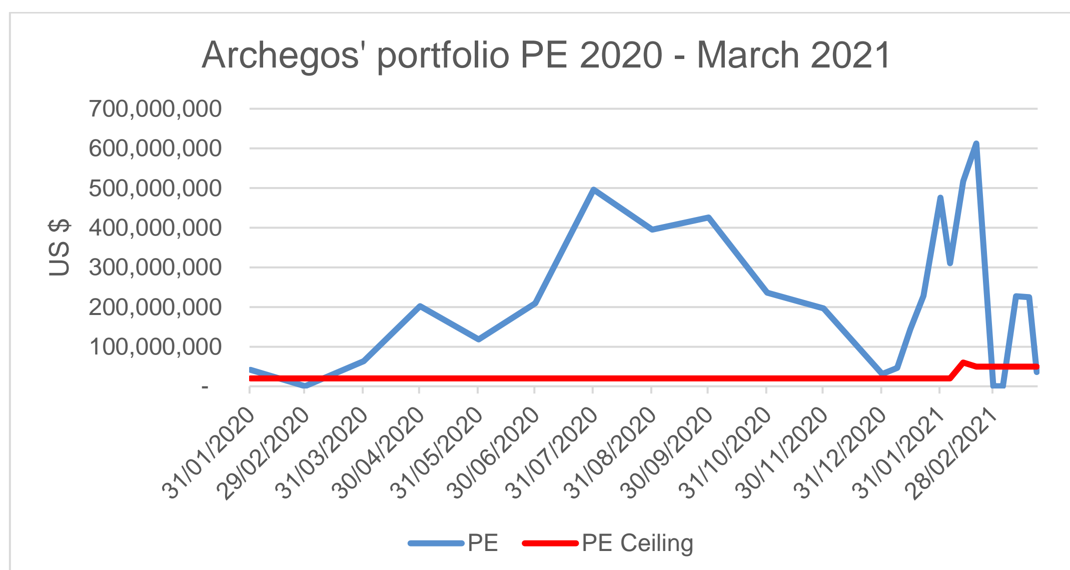
7.2. For the purpose of supporting the discharge of the responsibilities held by Prime Services senior management based in the UK under the SMCR for the management and oversight of the Prime

Services business of the Firms, including remotely booked business, Prime Services UK senior management entered into an SLA with Prime Services US senior management, effective from 11 May 2020. The SLA, which was modelled on a Credit Suisse precedent document and had been in place between the predecessors in those roles, required Prime Services US senior management to report to Prime Services UK senior management when limits had been reached. This was not, in fact, done in practice.

7.3. By 14 June 2020, the net scenario exposure of Archegos' portfolio with the Firms (calculated by netting its long and short positions in Prime Brokerage and Prime Financing against each other) had reached US$267.5 million, against a limit of US$250 million. By 30 July 2020, this figure had increased to US$885 million. On the same day, an IB Division Scenario Report stated that Archegos' portfolio was in excess of the 'Severe Equity Crash' scenario, with an exposure of US$602.82 million against a threshold of US$500 million. This was reported to the UK CRC as part of regular reporting to the committee, but was not discussed until September 2020.

7.4. In addition, the Firms recorded that regularly and materially Archegos' portfolio went beyond the PE limit placed on it. Steps ostensibly intended to lead to enhanced monitoring had been taken in 2018, although in substance such further monitoring in response to the continued and significant limit breaches in 2020 was limited. The PE limit was initially set at US$20 million (and revised to US$50 million in early 2021, as discussed below) but the PE of Archegos' portfolio was regularly assessed as being significantly (at least one order of magnitude) greater than that threshold.

7.5. PE data was circulated on a daily basis by the CRM IB Control team and it was raised as part of the internal reporting procedure for limit excesses (known as the 'Global Open Excess') from the beginning of 2020, however insufficient remedial action was taken to address the limit excesses.



7.6. The PRA has seen no evidence that the risks arising to Credit Suisse from Archegos' portfolio were substantively discussed at any PSR or CRM specific forum or meeting nor was the topic recorded as being a focus of the CRM team with responsibility for Archegos. This is despite the fact that from January 2020 through to March 2021, Archegos' PE was only in line with, or below, the threshold set

by CRM on three occasions (29 February 2020, 28 February 2021 and 5 March 2021).

7.7. Archegos was included consistently on a list of counterparties with PE excesses from 2020 onwards and would remain so until the event of default. Emails were sent to the CRM team reminding them of the excess position outside of PE limits as appropriate (almost weekly in the case of Archegos' portfolio) from April 2020 through to February 2021. At the start of March 2021 (the month in which the fund defaulted), it was recorded that Archegos' portfolio had exceeded the PE threshold that had been set for over 170 business days.

7.8. It is the PRA's understanding that in 2020 and early 2021, as a result of the deployment of the new PE model, concerns were raised as to the accuracy of the measurement in relation to portfolios such as Archegos' portfolio. This caused risk managers to generally discount PE limit breaches as being, on their own, an accurate and meaningful reflection of risk.

7.9. However, these concerns appear to have been unwarranted and the accuracy of the PE model was confirmed within Credit Suisse in February 2021.

7.10. During the second half of 2020, single-factor and multi-factor scenarios in relation to Archegos' portfolio were escalated to senior management within the Firms. CRM explained that Archegos' portfolio was becoming longer biased and shared a proposal, originally made by PSR, that Archegos' portfolio should be monitored by reference to the less onerous 'Bad Week Equity Crash' scenario as presented in PSR's Weekly FO Scenario Reports, rather than the previous 'Severe Equity Crash' scenario (which was still run by CRM). CRM endorsed this proposal by reference to the liquid nature of Archegos' portfolio, and later said that the 'Severe Equity Crash' scenario was punitive on the basis that the positions in Archegos' portfolio were in liquid mega and "*large cap*" stocks.

7.11. Concurrently, CRM set out two further potential options: first, by reducing exposure; second, by requesting a bespoke appetite limit, on the basis that the SFTQ scenario was too severe, before asking whether Archegos was going to be moved to CSI in the near future. The SFTQ limit at CSI was US$800 million, compared to US$400 million at CSSEL. CRM was of the view that a short-term limit increase in CSSEL could be justified in the context of a forthcoming migration to CSI.

7.12. The migration of clients from CSSEL to CSI was a consequence of a long-term plan to materially reduce the business and financial footprint of CSSEL, in order to, amongst other things, (i) result in only one significant UK legal entity (i.e., CSI) to reduce resolution planning complexities, and optimise resources (e.g., capital efficiencies). This process commenced in 2019, with the migration of Prime Financing clients beginning in August 2020.

8. CRM raises concerns about the management of Archegos' portfolio

8.1. During the second half of 2020, CRM raised with PSR a number of concerns it had about Archegos. On 18 August 2020, CRM asked PSR whether pre-approval had been secured from the PSRC or CRM for long swap positions Archegos had taken. CRM suggested that, in the absence of approval, the positions should be marked as trades that the Delta One desk was not authorised to enter into. This was on the basis that it was necessary to obtain approval from PSRC for single-name swap trades with a single counterparty of more than US$250 million. The PRA understands that such

approvals were typically documented by email, but senior management within PSR appeared to be unaware that such approval had been given.

8.2. In a further email, CRM observed that the fact that Archegos' portfolio had exceeded scenario and PE limits had "*caught the attention*" of senior managers. Senior management within PSR said that they did not agree that the positions were trades that the Delta One desk was not authorised to enter into because Credit Suisse had a flat margin requirement for trades with Archegos.

8.3. CRM subsequently raised concerns as to the appropriateness of continuing to finance positions at low margin levels. Senior management within PSR requested a call with relevant CRM colleagues to discuss further. What was discussed on the resulting call is uncertain, however Credit Suisse did not increase its scrutiny of Archegos' portfolio following the call.

8.4. On 25 August 2020, CRM communicated to senior management within both PSR and CRM that it had discussed with Archegos the positions it held with other, non-Credit Suisse, counterparties. On the same day, CRM insisted that PSR inform the Delta One desk that Archegos could not expand its long positions at existing margin levels.

8.5. On 1 September 2020, a senior manager within PSR confirmed that they had informed the Delta One desk that it could not expand, the long positions at existing margin levels CRM responded by saying that more direct messaging was required, and that Archegos should be told that Credit Suisse would require higher margins on new long positions. However, contrary to the instructions from CRM, Credit Suisse allowed Archegos to add to its long positions in late 2020 at very low (7.5%) rates of margin. Credit Suisse also renewed maturing swaps on the same margin terms as originally agreed.

8.6. On 3 September 2020, an internal email chain within CRM raised a number of issues about the ability of the PSR team covering Archegos' portfolio to function as an effective first line of defence, citing an unwillingness to manage Archegos' portfolio and general resourcing issues. The next day, CRM followed up again and PSR stated, but did not evidence, that progress had been made in respect of risk mitigation measures. Over the following weeks, Archegos added short index positions, and moved out $500M of illiquid longs in its Prime Brokerage portfolio.

9. The Counterparty Oversight Committee in September 2020

9.1. On 29 September 2020, Archegos was one of five counterparties reviewed at the first meeting of the CPOC. CPOC included a number of UK based individuals, including senior management in the UK Risk function. The materials provided in advance of the meeting dedicated a page to Archegos' portfolio, setting out that at the end of August 2020, the portfolio's PE was US$395 million and scenario exposure ('Severe Equity Crash') was US$921 million.

9.2. The minutes of the meeting noted that four actions had been agreed between PSR and CRM in relation to Archegos' portfolio: new trades would require higher margin; US$500 million of illiquid securities had been moved away from Credit Suisse; bias add-ons would be revisited; and Archegos' swaps would be migrated from CSSEL to CSI. The meeting went on to discuss CRM's observation that Archegos' portfolio with them was focused on a small number of equities, before agreeing that

an automated add-on would be desirable.

9.3. The *"Action/Decision"* arising from the discussion was for "*CRM to notify of any changes with the counterparty and to revisit the counterparty at a future meeting*". Two "*Follow-ups*" were noted: first, for the "*Business to provide RWA [(risk-weighted asset)] breakdown by Credit Line going forward for the material"*; second, for *"CRM to provide comments on "short fall view", i.e. comparison between actual margin vs. margin based on standard methodology going forward for the material*". Neither of these "*Follow-up*" items were performed.

9.4. The September 2020 CPOC meeting did not set a deadline for moving Archegos' portfolio to dynamic margining, which would have – amongst other things – provided for an "*automated concentration add-on*". Prior to the default of Archegos, only four of Credit Suisse Prime Services clients were transitioned to dynamic margining (Archegos was not one of those clients). Credit Suisse transferred 195 Prime Services clients to dynamic margining after the default of Archegos.

10. Temporary SFTQ RMC Appetite Limit Increase

10.1. By 1 September 2020, senior management at the Firms were involved in discussions about the scenario exposure of Archegos' portfolio.

10.2. Around this time, CRM was exploring with senior management whether the migration of Archegos' portfolio to CSI could be brought forward; however, on 8 September 2020, it was reported that PSR was focussed on increasing Archegos' margin requirements, rather than pursuing the migration to CSI.

10.3. On 22 September 2020, CRM communicated to senior management that it was working towards resolving the limit breaches in relation to Archegos' portfolio by 6 October 2020, after which date it would become reportable as an RMC breach. On 25 September 2020, a conference call took place between senior management and senior individuals within CRM, following which it was agreed that a proposal to temporarily increase the SFTQ limit would be made. By that date, the exposure of Archegos' portfolio under the SFTQ scenario was US$799 million. On 1 October 2020, the proposal was sent to senior management in CRM, and a call took place on 2 October 2020 to discuss the proposal generally, Archegos' ability to meet margin calls, understand the nature of the positions held with other, non-Credit Suisse, prime brokers, and expectations on forward exposure and appetite.

10.4. On the same day, UK CRM was asked to opine on the positives and negatives of the proposal, as the request would ultimately need to be approved by senior UK Risk management. At that time UK CRM observed that Archegos' portfolio was already beyond the proposed US$900 million limit and that it would take multiple days to liquidate because it was focused on a small number of equities. There is no evidence that the negative factors identified by UK CRM were brought to the attention of senior management in the Risk function.

10.5. Later that day, the UK CRM's proposal to temporarily increase the SFTQ limit to US$900 million was sent to senior management in UK Risk, recommended by senior management in CRM. In support of the proposal, senior management in UK CRM's recommendation highlighted the following points: Archegos kept 40% of its NAV in unencumbered cash and CRM had no concerns about its ability to

meet margin calls; the client had become more long equity which was driving the SFTQ increase, which had allowed them to benefit from the run-up in the stock market and had helped them pare back losses made earlier in the year; Archegos' positions were liquid in nature; CRM was monitoring the portfolio very closely on a daily basis and was working with the business to reduce the "Bad Week" scenario exposure; and Archegos would be migrated to CSI in the coming months, where there was a standard counterparty appetite of US$800 million. The UK CRM proposal also noted that the Archegos client was a significant relationship for Prime Services, and a sudden increase in the margin requirement may damage the client relationship in circumstances where CRM knew Archegos used six other prime brokers.

10.6. The proposal also cited CSSEL's daily optional early termination rights and daily rights to change the Prime Brokerage margin requirement. These rights were viewed as a last resort, and were never used. Indeed, neither senior management in Risk nor senior management in Prime Services could confirm to the PRA that they had been aware of the ability of Credit Suisse to call for additional margin on three days' notice.

10.7. Senior management in UK CRM explained to the PRA that they had understood senior management in Risk had some visibility of the circumstances surrounding Archegos when sending their recommendation by virtue of the discussion they understood had taken place at the September 2020 CPOC, which they (senior management in UK CRM) had not attended. However, contemporaneous correspondence between UK CRM and US CRM (not including senior management in UK CRM) noted that the discussion about Archegos did not cover all aspects of the risk of the client's portfolio.

10.8. That same evening, senior management in Risk approved the bespoke limit until 30 November 2020. Senior management in Risk and senior management in CRM have conflicting recollections about whether a conversation took place in addition to the written proposal. Senior management in Risk think that a conversation took place because they were not familiar with the escalation process and operation of the SFTQ limit. Senior management in CRM recall that approval was given on the basis of the written proposal alone. No explicit conditions or deadlines were imposed for dealing with the fact that Archegos' portfolio had exceeded the various limits; although, senior management in UK Risk understood that the temporary nature of the increased threshold implied that the situation needed to be remedied by the end of the temporary increase in November 2020.

10.9. Bespoke scenario appetite limits were very rarely introduced for counterparties by Credit Suisse. From January 2018 to January 2020, one of CSSEL's hedge fund counterparties was given a temporary bespoke scenario appetite, with an increased scenario limit of US$600 million, and two hedge funds were given bespoke limits by CSI. Archegos was the lowest internally rated entity, across CSSEL and CSI, to receive a bespoke limit during the Relevant Period (at the time, CRM rated it as 'BB-'). Further, the temporary SFTQ limit of US$900 million was only US$100 million lower than the limit CSSEL applied to Central Counterparties and Key Sovereigns, it was also US$100 million higher than the standard counterparty limit applied in CSI. The bespoke scenario appetite limit applied in relation to Archegos' portfolio was comparable (according to CSSEL's Credit Risk Appetite Framework in force at that time) to debt issued by, and the central banks of, Canada, Germany, France, Sweden, Switzerland, the UK and the US.

10.10. On 6 October 2020, emails involving senior management confirmed that the bespoke limit had been

approved and, as a consequence, a limit breach did not have to be reported to the CSI/CSSEL RMC. Nonetheless, the limit increase was reported, albeit without discussion at the RMC. Approximately a month after the temporary limit increase was introduced, UK CRM requested an update on whether Archegos portfolio's 'Bad Week Equity Crash' scenario exposure had decreased. It was confirmed that it had not, due to the focus at this time on the migration of Archegos' portfolio from CSSEL to CSI, which was targeted to be achieved by 30 November 2020. This is contrary to the previous representations made by PSR to CRM (see paragraph 10.2, above), who had previously stated that they focussed on increasing Archegos' margin requirements.

11. 'Severe Equity Crash' and 'Bad Week Equity Crash' Scenarios

11.1. In October 2020, Archegos' portfolio started being measured against the more generous 'Bad Week Equity Crash' scenario, this was supplemental to the portfolio being measured, by CRM, against the 'Severe Equity Crash' scenario, which was reported in UK risk governance forums.

11.2. The 'Bad Week Equity Crash' scenario was a more forgiving stress measure, which was rarely used in practice to monitor hedge fund client business booked into the Firms. As stated in the Paul Weiss Report, despite the use of a more forgiving stress measure, Archegos' portfolio continued to reach and go beyond its scenario limit. The proposal to measure Archegos' portfolio against the 'Bad Week Equity Crash' scenario came about following increased scrutiny from senior management within the Firms around addressing the situation in relation to SFTQ.

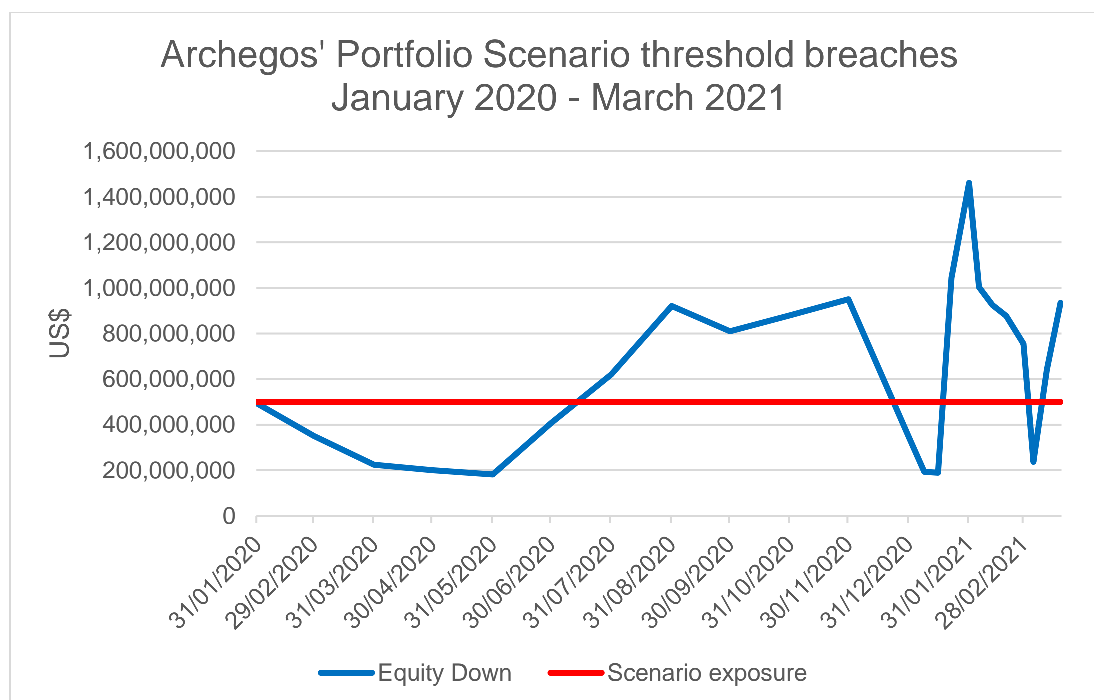
11.3. The Firms have made clear to the PRA that it was *"not uncommon"* for counterparties to be measured against a 'Bad Week Equity Crash' scenario. The Firms have explained that *"[i]n most cases, clients monitored under "Bad Week" scenarios typically transact highly liquid, exchange-traded derivatives, with scenario exposures based on "Severe" metrics deemed to be material (i.e. either as a percentage of their NAV or in absolute terms), and often are subject to dynamic exchange margin rules. In all cases where it is used, "Bad Week" scenarios were considered to be more reflective of the clients' stress position (as opposed to "Bad Month" scenarios)*."

11.4. Credit Suisse's transactions with Archegos were predominantly OTC derivatives (i.e. not exchange-traded) and Archegos' portfolio was not subject to dynamic exchange margin rules. This, along with the fact that the 'Bad Week Equity Crash' scenario was not regularly deployed by the Firms, suggests that Credit Suisse's decision to utilise the 'Bad Week Equity Crash' measure was unusual (as has been confirmed to the PRA by an individual involved in the decision).

11.5. It appears that, around this time, the second line risk function was operating under the misunderstanding that VM held at the Firms, on behalf of Archegos, could not be withdrawn by Archegos without Credit Suisse's consent – with the result that comfort was taken from the amount of VM Credit Suisse held. In fact, Archegos had a contractual right, under the relevant ISDA, to request the return of excess VM and in the ordinary course the Firms would not have been able to refuse such a request. In this regard, in March 2021, the Firms subsequently posted US$2.4 billion in VM from CSI to Archegos in six tranches.

11.6. The Firms recorded that Archegos' portfolio consistently and substantially exceeded the single factor

scenario threshold in the period from July 2020 through to February 2021.



12. Migration to CSI

12.1. Senior management in CRM explained to the PRA that they deemed the migration of Archegos' portfolio to CSI to be one, but not the only, remediation step put in place in respect of the risks to Credit Suisse arising from the CSSEL limit excess of the client's portfolio.

12.2. On 13 November 2020, CRM asked whether the migration of Archegos from CSSEL to CSI could take place before the bespoke SFTQ limit expired at the end of the month. On 23 November 2020, PSR provided an update explaining that Archegos was committed to migrating to CSI before year end and had indicated that it would, by mid-December 2020, bring down its long bias with short positions. Later that day, CRM suggested, given the updates from PSR, that the bespoke limit should be extended for another month.

12.3. On 30 November 2020, CRM requested a one-month extension to the bespoke limit applied to Archegos' portfolio, citing that there had been no material change to the SFTQ scenario and that the long-term plan was to move Archegos' portfolio to dynamic margining. This request was forwarded to senior management in Risk on the evening of 2 December 2020 and approved by the morning of 3 December 2020. Senior management in CRM told the PRA that no conversation took place between them and senior management in Risk before the extension was approved; senior management in Risk could not recall.

12.4. Archegos executed the necessary documents for its migration to CSI on 15 December 2020, and migration took place on 18 December 2020. Senior managers within Prime Services made clear internally that the client was a "*true partner*". The Paul Weiss Report stated that from the moment of migration, the Firms recorded that Archegos' portfolio was immediately beyond CSI's US$800 million appetite limit.

12.5. The new Portfolio Swaps Annex ("**PSA**") between Archegos and CSI contained a clause that required Archegos to represent, in connection with any trade, that it did not hold beneficial ownership (whether in stock or through swaps) amounting to more than 20% of the outstanding shares of the issuer. Under the 2005 PSA between Archegos and CSSEL (as amended in 2015) that figure was 5%. A 10% figure, suggested during negotiations, was given up by PSR during its negotiations with Archegos in late 2020 with the aim of effecting a faster migration of the client. While the new provision was not bespoke to Archegos and appears to have been used by CSI in ISDA agreements with other clients at the time, this contractual change represented a relaxation in the representations Archegos was required to make on an ongoing basis. This was potentially significant, given it was known that there was a real risk that Archegos' portfolio with Credit Suisse was replicated in its portfolios with other prime brokers. In addition, the 2020 PSA diluted Credit Suisse's daily right to call additional margin so that it could only do so on three days' notice, rather than daily.

13. January 2021

13.1. Following CRM's annual credit review of Archegos for 2020, a formal recommendation was made that the fund's internal credit rating be downgraded one notch from 'BB-' to 'B+' (a departure from the original proposal for a two-notch downgrade, applying the HFRM). Each notch downgrade indicates a material increase in the probability of default, according to the quantitative model used, with a two-notch downgrade representing a material increase in the probability of such an event occurring. It appears that the revised downgrade in relation to Archegos was primarily as a result of two decisions by Credit Suisse: that the original leverage input by the HFRM was too punitive for the short positions in Archegos' portfolio; and that the transparency and reporting factors for Archegos were upgraded by CRM, although no changes had been made to either of those factors since the last internal credit rating was calculated.

13.2. The effect of CRM's one-notch downgrade was to put Archegos in the bottom third of Credit Suisse's hedge fund counterparties in terms of its credit rating.

13.3. CRM's annual credit review also noted that Archegos' equity portfolio at Credit Suisse was representative of its position with six other prime brokers. These were the same six names communicated to senior management in CRM and Risk when the request for a temporary increase in the SFTQ limit was made by CRM in October 2020. Despite this, senior management in Risk told the PRA that they did not think anyone within Credit Suisse was aware of the concentration of Archegos' positions with other prime brokers until after default.

14. February 2021

14.1. As of 2 February 2021, the PE of Archegos' portfolio had risen to US$475 million (from US$34 million on 6 January 2021), with PSR noting "*huge volatility*" in the last three days of January 2021. CRM was keen to understand why the PE had changed so drastically. PSR noted the increase had been mostly caused by an extreme appreciation of the equity spot price over the last few weeks.

14.2. Simultaneous to the internal credit rating downgrade proposal circulated in January 2021, on 3 February 2021 CRM recommended an increase to the PE limit applied to Archegos' portfolio from

US$20 million to US$50million. This US$20 million limit was already double the US$10 million maximum for a 'B+' rated hedge fund. The justification given for the recommended increase was that a US$50 million limit fell within the Credit Suisse counterparty Credit Risk Framework Guidance (which permitted PE limits not in excess of 10% of a fund's NAV, which in Archegos' case was 10% of US$8.1 billion). Senior management in Risk has since told the PRA that while it is a common credit risk practice, in their view it is not useful to compare a PE limit against a fund's NAV.

14.3. The other reason given for this recommendation was the 'liquid' nature of the products traded by the fund. This was despite reports from CRM stating that Archegos had estimated that it would take "*between two weeks and one month*" to liquidate the portfolio, "*although more than 50% of the portfolio can be liquidated within days*".

14.4. In addition to being beyond the limit of the PE ceiling, CRM recognised that scenario exposure in relation to Archegos' portfolio, as of 26 January 2021, was also over double the established US$500 million limit, sitting at US$1.1 billion.

14.5. Senior management in Risk recognised that CRM's recommendation to increase the PE limit at the same time as the decision to internally downgrade Archegos' credit rating was an "*unusual set of facts*", and on 9 February 2021 a brief call was held to discuss the recommendation, following which the request was approved. The PE limit in relation to Archegos' portfolio was therefore increased to US$50 million, and the US$500 million limit in respect of the 'Severe Equity Crash' scenario continued to apply.

14.6. The Paul Weiss Report stated that, later that day, CRM informed PSR that (i) CRM needed to know exactly when dynamic margining would be implemented; (ii) CRM had calculated that around US$1 billion in additional margin was needed so that Archegos' portfolio was comfortably within the US$500 million scenario limit; (iii) CRM needed to understand the purpose of Credit Suisse having daily termination rights and the ability to raise margin with three days' notice, if Credit Suisse considered that the client was *"not amenable"* to the use of such rights; and (iv) senior management in Risk wanted to place the client back on the CPOC agenda the following month.

14.7. Senior management within PSR responded to CRM that scoping work had been commenced in relation to moving Archegos' portfolio to dynamic margining, which should not "*take that long*" to become operational. PSR disagreed with the suggestion that Archegos had not permitted Credit Suisse to exercise its contractual rights. PSR also considered that asking Archegos to post around US$1 billion in additional margin was unreasonable – saying that *"asking for $1bn is pretty much asking them to move their business"* – noting, in particular, that Archegos had continued to add shorts, agreed to a higher IM on all new positions and would be reducing the risk in the portfolio shortly. PSR said that they were not convinced that applying a severe scenario was sensible as Archegos' portfolio could be liquidated "*well within*" a couple of weeks.

14.8. In response, CRM reiterated its key concern around margin erosion and said that the severe scenario was reasonable and plausible given the more extreme market moves. CRM also disclosed that it had been under the erroneous impression that CSI held over US$2 billion in margin excess. CRM queried how quickly more shorts could be added to Archegos' portfolio together with the US$629 million held in margin excess.

14.9. On 10 February 2021, PSR requested that Archegos post US$750 million in additional IM by

converting all current excess margin at Credit Suisse – around US$742 million – into IM together with an additional US$8 million. As of 16 February 2021, additional IM of US$750 million had not been posted and the PE of Archegos' portfolio had grown to US$529 million.

14.10. At this point, discussions took place between both UK and US senior management in Risk and CRM. A contemporaneous email noted that, whilst there had not been material changes to the swap positions in Archegos' portfolio over the previous six weeks, PE had grown from US$30 million on 1 January 2021 to US$529 million on 16 February 2021, a situation caused mainly by margin erosion. Although CRM said that Archegos needed to immediately post more IM and that ongoing scrutiny was warranted, CRM said that it did not have any acute counterparty concerns, referring to its understanding that Archegos should have "*ample liquidity*" to post additional margin and the strong partnership between PSR and Archegos.

14.11. On 18 February 2021, CRM downgraded Archegos' rating from medium to low for the purposes of PSR control reports. CRM's rationale, as referred to in the Paul Weiss Report and shared with PSR via internal chat messages, included the increase in the NAV of Archegos' portfolio over a short period of time (US$1.5 billion on 1 April 2020, US$6 billion on 1 December 2020 and US$8.1 billion on 1 January 2021), the substantial increase in leverage (from historic levels of three to four times to six times), and the risks of Archegos' exposure across the market. CRM told senior management in PSR that CRM was aware of the identities of all issuers in Archegos' portfolio and that a liquidation could be forced in the event that all prime brokers increased margin requirements simultaneously. Although senior management in PSR responded to the last message sent by CRM on the same day, they do not appear to have responded to this query. Around the same time, the VM that PSR was hoping to convert to IM had eroded by around US$200 million.

14.12. On the same day, 18 February 2021, Archegos posted US$500 million in additional IM. Senior management in Risk queried why there was a difference between the amount requested and paid, and PSR responded that Archegos had requested that the additional margin be taken out of the margin excess (at the time this was US$670 million), but that market movements had reduced that excess to below US$500 million. PSR suggested that the recurrence of these issues would largely be resolved by the move to dynamic margining.

14.13. On 19 February 2021, following a due diligence call with Archegos, CRM proceeded to operate on the basis that there was a real risk that Archegos' portfolio with the Firms was replicated in its portfolios with its other prime brokers: Archegos had noted during the call that while they ideally take positions on a pro rata basis across their core prime brokerage providers, including Credit Suisse, it did not always work out that way and their positions may be more or completely concentrated with one prime broker; in response to this information, CRM concluded that the Firms should assume that Archegos potentially has additional exposure on the same large names with other prime brokers Later that day, CRM reiterated to PSR the risks it perceived were posed by Archegos' portfolio.

14.14. By 23 February 2021, CRM recorded that the PE in relation to Archegos' portfolio had increased to US$610 million, and the scenario exposure had increased to US$878 million. During the course of the following day, Archegos' margin excess had reduced from US$542 million to US$324 million. On the same day, CRM told senior management in Risk that Archegos had unencumbered cash and margin excess to the value of US$6.6 billion.

14.15. On 19 February 2021, PSR prepared a dynamic margining proposal for Archegos. The terms of the proposal were considered to be "*about as tight*" as possible; if adopted, these terms would have yielded an average margin of 16.74%, leading to approximately US$1.27 billion of additional IM being requested. This would still have been less than half the US$3 billion figure which PSR knew had been calculated as the amount needed as additional IM if the relevant dynamic margining rules had applied. PSR sent the dynamic margining proposal to Archegos on 24 February 2021.

15. March 2021

15.1. Archegos was brought to CPOC for a second time on 8 March 2021, following a request made by CRM in January 2021. The materials provided in advance of the meeting dedicated two pages to Archegos and are substantially reproduced in the Paul Weiss Report.

15.2. The introductory section explained, amongst other things, that Archegos was being brought to CPOC to ensure awareness of the size of the Delta One swap book with Archegos (which was noted as being Prime's largest in terms of GMV and NAV), the single issuer concentrations within the portfolio, the liquidity of the underlying positions, the aggressive margins in place, Credit Suisse's current exposures in the context of Archegos' internal credit rating and the substantial use of leverage. The goal for the discussion at CPOC was to obtain consensus on the scenario appetites and other risk measures or mitigating actions to be taken and to set a timeline for compliance with them.

15.3. Archegos was presented at the meeting by PSR and CRM. It was noted that PSR had been actively discussing moving Archegos to dynamic margining, with add-ons for concentrations, liquidity and portfolio bias, and that the proposal had been sent to Archegos.

15.4. The meeting was told that the key update since the September 2020 meeting was the significant appreciation of Archegos' Delta One swap book: it had grown to US$20 billion GMV, with its largest position representing 16% of that figure, and was net long biased by US$7.3 billion with margins of 8% to 9%. In addition, the scenario exposure of the portfolio had grown to US$1.4 billion in January 2021 before reducing below US$800 million after US$500 million of additional margin was posted in February 2021. The meeting observed that Credit Suisse's next largest client had a portfolio with US$5 billion GMV and the next largest net long biased was net long by US$1.5 billion. In addition, the scenario exposure in relation to Archegos' portfolio was one of the largest in the global hedge funds portfolio. During the meeting it was said that Archegos had not actively added any long exposure but that the increased exposure was driven by market movements and the subsequent erosion of the static margin of its bullet swaps.

15.5. The single *"Action/Decision"* arising from the discussion was to move Archegos' portfolio to dynamic margining with add-ons for liquidity and concentration "*within the next couple of weeks*"; or, alternatively, to request an additional US$250 million in margin by the middle of the week commencing 15 March 2021. It is unclear how this figure was determined, but it was less than one-fifth of the proposed (and notably "*aggressive*" and "*tight*") day one step up in IM figure of US$1.27 billion which was part of the dynamic margining proposal sent to Archegos on 24 February 2021. The single *"Follow-up"* was for the owner of the *"Action/Decision"* to "*update the committee on the resolution of the decision, and whether any aspect of add-ons may still be subject to discussion at*

the next meeting".

15.6. After a call with Archegos on 11 March 2021, PSR sent an updated dynamic margining proposal with a revised day one step up in IM figure of US$1.49 billion. On 17 March 2021, PSR sent a further updated proposal with a revised day one step up in IM figure of US$1.38 billion. The Paul Weiss Report stated that Credit Suisse held a call with Archegos on 18 March 2021 and, despite some subsequent efforts, no further progress was made.

15.7. During this period, the Firms posted a total of US$2.4 billion in VM from CSI to Archegos in six tranches beginning on 11 March 2021 and ending on 19 March 2021. Following an instruction made on 16 February 2021 that no VM excess should be returned to Archegos without explicit approval from CRM or PSR, each of these requests was approved by CRM or PSR, as there was an obligation to return the VM in line with Credit Suisse's contractual obligations (although this did not prohibit CSI from exercising its own contractual rights to convert VM to IA).

15.8. In addition, the Paul Weiss Report states that between 12 and 24 March 2021, the Firms permitted Archegos to execute US$1.48 billion of additional net long positions, with an average margin of 21.2%. Also, on 12 March 2021, CSI inadvertently renewed in excess of US$13 billion of the swaps in Archegos' portfolio (which were otherwise due to mature at the end of March 2021). Many of these swaps were with an IM of 7.5%.

16. The default of Archegos – 26 March 2021

16.1. As at the close of business on 19 March 2021, one of Credit Suisse's risk metrics had indicated that in a stressed scenario Archegos' portfolio could result in an almost US$1 billion loss of IM. Despite this fact and the withdrawals of excess margin, CRM continued to indicate as late as 24 March 2021 that "*there are no immediate counterparty concerns*" noting, amongst other things, that "*margin can be increased with [a] 3 day notice,*" While also requesting that PSR work with Archegos to reduce their net scenario exposure and noting that Archegos' combined scenario exposure had come down as at 17 March 2022. On the same day as CRM reported no concerns in relation to Archegos' portfolio, the matter was escalated to some members of Prime Services senior management.

16.2. On 25 March 2021, the Firms recorded that Archegos would be unable to meet a margin call from CSI on 26 March 2021. On the same day, CRM issued an 'Operational Alert' in respect of Archegos, given the liquidity issues.

16.3. There was limited engagement with UK management around the difficulties Archegos faced prior to 24 March 2021. Contemporaneous communications from UK-based individuals on 25 March 2021 appear to suggest there were poor communications within Credit Suisse, particularly in light of regulatory concerns around Credit Suisse's remote booking model. Furthermore, it appears that UK CRM was not engaged in the detail of the matter and were first made aware of Archegos' liquidity issues when they received a notification of a large margin call in the Prime Services business.

16.4. Prior to 24 March 2021, some, but not all, senior individuals within the UK were not sighted on the position in relation to Archegos' portfolio. Information on the position was indirectly communicated with UK stakeholders. This is despite the fact that on 24 March 2021 the size of the notional portfolio (gross) held at the UK entity was US$23 billion as compared to US$600 million at Credit Suisse's

US entity.

16.5. Archegos was subsequently made aware that it would need to meet a substantial margin call in Credit Suisse's favour of approximately US$2.7 billion. At the time, senior management at Credit Suisse expressed surprise that there were positions on their books that could result in a margin call of this size.

16.6. On 26 March 2021, Archegos was served with a notice of default and the portfolio was closed out on the same day.

16.7. After the default, concerns were raised by members of CRM indicating that issues flagged by them over several years had contributed to the significant losses incurred following Archegos' default. It was suggested that the issues were in part as a result of an under-resourced US team and that "*historical issues… and now Archegos point to … the fact that a significant number of Audit and CRR issues stem from things done/not done in the US.*"

16.8. Following the default, it was noted by individuals within CRM that Archegos was one of the top three accounts in Prime Services, but it was very different to the significant counterparty names, such that it was unclear "*why we were allowing this type of account to have such balances*" with another individual responding that "*every position was outsized though that is what I cannot get my head around… it was a family office!*" This concern was subsequently echoed in a separate exchange of emails with senior management: "*Archegos exposures were very clearly outsized and more concentrated than any other client on the platform.*"

16.9. CRM undertook an assessment of Archegos' portfolio on 28 March 2021 and found that of the six largest positions in Archegos' portfolio at the Firms, in all cases the Firms had allowed the exposure to exceed the cumulative total of the exposures in the next nine client portfolios with a significant exposure to that security. See one example, below:

Anonymised US equity		
	Short	**Long**
Total exposure	4,859,812,388	1,875,310,574
Archegos		1,784,310,035
Client 1	100,807,656	43,000,000
Client 2	17,621,388	17,517,431
Client 3	38,941,531	3,340,265
Client 4	1,907,293	3,089,493
Client 5		3,084,400
Client 6	414,846	2,237,943
Client 7	2,182,213	2,169,594
Client 8		2,092,906
Client 9	14,675,940	1,888,346

16.10. Subsequent correspondence on 1 April 2021 included a number of proposed changes to Prime Services following the default of Archegos, to be put in place in order to avoid a similar occurrence in the future. These included:

16.10.1. The migration of all clients on static margin to dynamic margining;

16.10.2. Daily reporting by Prime Services to CRM of the margin shortfall of static margin clients by comparison to the dynamic model;

16.10.3. Introduction of notional GMV limits for all clients on static and dynamic margining;

16.10.4. A review of the governance structure between CRM and Risk, including the metrics used by both groups for risk decisions;

16.10.5. The requirement for limits and changes to be approved by senior management in Prime Services as well as in CRM, following escalation thresholds; and

16.10.6. A review of the robustness of the Prime Services business infrastructure and operational risk processes.

16.11. Concurrent with this analysis was an ongoing 'deep dive' that followed Archegos' default which indicated that the Firms stopped providing material exposure to Archegos on long single name swaps in October 2020. This was not in fact correct. The Firms continued to provide Archegos with exposure on long single names throughout November to December 2020 and January 2021 (albeit with increased margin requirements). Indeed, the Firms extended the swaps in Archegos' portfolio that had reached their term on almost identical terms and without requesting additional margin to offset the erosion of margin given the static margining of the portfolio and its growth over time.

16.12. Contemporaneous correspondence makes clear that individuals within Credit Suisse believed that New York CRM's activities in the run-up to Archegos' default were inadequate, and subsequently, senior management in risk noted that in relation to CRM there was a "*lack of robustness and timeliness in assessing, reporting and escalation of credit limits*."

16.13. Subsequent analysis in mid-April 2021 identified that Archegos' default had resulted in CSI breaching its liquidity coverage ratio (combined Pillar 1 and Pillar 2), with the March 2021 month-end figure being reported at 95.5% (below the regulatory requirement that CSI's ratio of High-Quality Liquid Assets to its net cash flow was at least 100%). The breach was remedied shortly after identification. The breach came about as a result of expected payments from Archegos not materialising.

16.14. The total losses incurred by the Firms following the default of Archegos amounted to US$5.1 billion.

17. Previous remediation activities

17.1. During 2020, the Firms identified deficiencies in the handling of a previous matter which had occurred in Equity Derivatives, a different business unit to Prime Services. Those deficiencies bore a number of similarities with the deficiencies regarding the Firms handling of the Archegos relationship. Internal Audit ("**IA**") conducted a review (the "**2020 IA Review**"), which made remedial recommendations. Senior management within Credit Suisse acknowledged and agreed with the 2020 IA Review's recommendations. The implementation of those recommendations took the form of a remediation programme ('the **Remediation Review**').

17.2. IA later assessed the effectiveness of the Remediation Review in November 2021 (the "**2021 IA Review**") and found that the Remediation Review had not adequately mitigated a number of the key risks identified by the 2020 IA Review and that, as a result, material weaknesses remained. The 2021 IA Review stated that "*Management has not adequately addressed a number of key observations raised due to a primary focus on hedge funds and Equity Derivatives (EqD), and actions were closed prior to fully remediating the underlying risks. As a result, key risks that were highlighted by IA in 2020 have not been sufficiently mitigated, resulting in 9 repeat issues and 2 newly identified issues.*" The 2021 IA Review identified one of the root causes of the remediation failures as a "*short-term and narrow approach to issue remediation with limited read-across.*"

17.3. In addition, the following were observed by the 2021 IA Review:

17.3.1. The Remediation Review planned for a wider application of the Standard IM Model tool ("**SIMM**"), which was a form of dynamic margining. However, the 2021 IA Review found that the SIMM tool was not broadened out for day-to-day use by CRM.

17.3.2. The Remediation Review aimed to develop a plan to improve the ability of the market stress scenario framework to capture idiosyncratic risks in hedge fund portfolios, but no major improvements were developed.

17.3.3. As part of the Remediation Review, CRM implemented a number of enhancements to risk reporting. However, the 2021 IA Review found that CRM's enhancements were inadequate because it had not introduced triggers against reported exposures, which undermined CRM's ability to proactively monitor risk, and because CRM could not demonstrate to IA that it had, in fact monitored enhanced reports;

17.3.4. The Remediation Review planned to amend master agreements with counterparties so that transactions could be quickly terminated in response to market movements. Although CRM did review and revise credit terms in the hedge fund master agreement, it confined its review to terms related specifically to the issues that had prompted the 2020 IA Review;

17.3.5. The Remediation Review established the CPOC in September 2020 to review high-risk counterparties with a specific focus on risk vs reward. The 2021 IA Review found that CPOC was not adequately designed and did not operate effectively because: key parties (e.g. Prime Services) were not invited to meetings where Archegos was discussed; defined actions were not addressed in a timely manner; risks were ignored or not identified; CPOC operated in silos, where each member addressed only counterparties relevant to their respective business; matters were not sufficiently escalated to seniors; and CPOC was not adequately embedded into Credit Suisse's overall committee hierarchy; and

17.3.6. The Remediation Review planned to implement improvements to policies, procedures and escalation paths in order to clearly define roles and responsibilities; however, although external counsel was engaged to refresh guides and templates, procedures were not in place to ensure these documents remained sustainably updated.

17.4. The Remediation Review recommended that market risk oversight should be incorporated into counterparty credit review and the Equity Market Risk team, working alongside CRM, identified concentrated positions held by Equity Derivatives clients. However, Prime Financing swaps (such as those entered into by Archegos) were considered out-of-scope as they were less complex, linear derivatives.

17.5. The 2021 IA Review recommended that Credit Suisse perform a 'lessons learned' review of the Remediation Review's failures and integrate the results into a separate remediation programme. Credit Suisse's lessons learned review found that the Remediation Review had been focused on Equity Derivatives clients and most of the deliverables were aligned to that narrow scope.

17.6. A further IA Report into 'Counterparty Credit Risk Measurement and Management' in October 2022 noted that while market conditions (associated with the onset of the COVID-19 pandemic) may have introduced a degree of volatility into the PE measure (and which would have settled by Q3 2020), this placed a greater emphasis on the "*credit officer's risk monitoring processes*", which were found to be lacking in the IA Report as "*potential exposure limit excesses [were] … not addressed on a timely basis.*" The IA Report noted that Credit Suisse's controls were "*overly reliant on [the] credit officer's judgement and discipline [and] … analysis of the year-to-date excesses in INSIGHT indicates that… there were 180 active … and 824 passive … open limit excesses with an average age of 47 and 100 days respectively.*" In response to this finding, Credit Suisse agreed an action to *"enhance the credit risk limit monitoring framework policies and procedures with a more clearly defined structure on: all excesses that are over 40 days aged, the forums those excesses should be reviewed in, minimum level of commentary needed for each excess and remediation timelines, as well as clear escalation under the new process".*

18. Post-Archegos default steps and remediation

18.1. The default of Archegos prompted a special committee of Credit Suisse's Board of Directors to appoint Paul Weiss to conduct an independent examination into Credit Suisse's relationship with Archegos along with other governance, risk and cultural issues. The outcomes of the examination have been set out in a publicly available document released on 29 July 2021.[2] The Paul Weiss Report expressed a number of concerns in relation to Credit Suisse's management of risks. Credit Suisse responded to the Paul Weiss Report acknowledging its findings and sharing the concerns expressed within the report. Amongst the acknowledgements set out in the response to the report was a need to "*strengthen clarity of roles and foster a culture of individual accountability*" and to minimise "*co-headed positions and multi-hatted roles.*" The need for encouraging upward escalations, particularly of limit excesses, and of a "*speak-up culture across the bank*" was also acknowledged.

[2] https://www.credit-suisse.com/about-us/en/reports-research/archegos-info-kit.html

18.2. Following the default of Archegos, Credit Suisse also undertook a restructuring of its business across the globe, including exiting the Prime Services business, alongside other higher-risk activities and markets, in order to simplify and de-risk its business model, and changed leadership within the bank.

18.3. Additionally, immediately following the default, Credit Suisse established the Archegos Remediation Program ("**ARP**"), to undertake a significant remediation exercise. The ARP was a group-wide book of work established to comprehensively review Credit Suisse's risk management and aimed at holistically addressing the root causes of the Archegos default. The ARP consolidated findings and recommendations from regulators and the Paul Weiss Report, as well as other remediation efforts. The ARP also included a robust review and challenge process led by accountable executives, culminating in a cross-functional Review Board which verified the completion of remediation actions. In addition to the ARP, the Firms' existing Risk Enhancement Plan was also augmented to include key enhancements responsive to the Archegos default.

Annex B: Breaches and Failings

1. Breaches

1.1. During the Relevant Period, as a result of the facts and matters set out at Annex A to this Notice, the Firms breached relevant requirements of the PRA's Fundamental Rules. In particular, between 1 January 2020 and 31 March 2021 the Firms breached:

1.1.1. Fundamental Rule 2 (*a firm must conduct its business with due skill, care and diligence*);

1.1.2. Fundamental Rule 3 (*a firm must act in a prudent manner*);

1.1.3. Fundamental Rule 5 (*a firm must have effective risk strategies and risk management systems*); and

1.1.4. Fundamental Rule 6 (*a firm must organise and control its affairs responsibly and effectively*).

1.2. These rules are included at **Appendix 2**.

2. The PRA's expectations

2.1. The management of risk by a firm is an integral part of the PRA's assessment of a firm's safety and soundness. Accordingly, the PRA expects firms to exercise due skill, care and diligence in upholding and maintaining the robustness of a firm's risk management systems and controls.

2.2. The importance of identifying, managing and correcting weaknesses in a firm's management of risk has been clear since the Global Financial Crisis and has been observed in communications by domestic and international regulatory authorities. Equally important is ensuring a sufficient understanding and ownership of risk within the business and lines of defence. Firms must ensure that these fundamental limbs of risk management within financial services are robust and operating effectively throughout the organisation. If such systems and controls and insufficient, firms may enter into transactions with counterparties they cannot appropriately scope the risk of, with short-term profitability associated with the client prioritised at the expense of medium/long-term prudent management of risk within the firm.

2.3. Firms acting through their Boards and their senior management, including but not limited to those holders of SMF, have responsibility for instilling a culture that emphasises the importance of risk management. Culture extends beyond policies and procedures, encompassing the norms and practices created by firms' Boards and management. Boards and senior management should therefore promote a culture which emphasises the importance of risk ownership and management and appropriately balances the considerations of risk against commercial reward. Where the culture set by management is one of low or no risk ownership and the prioritisation of profitability irrespective of the risk, concurrent with a failure to invest and dedicate adequate resources to risk functions, it is inevitable that an exogenous or endogenous factor will result in significant – and potentially fundamental – losses to a firm. This is not a novel or new approach to risk management.

2.4. Furthermore, it is a basic principle of risk management that firms must have confidence in their risk metrics and controls. Where there are questions raised as to the accuracy of risk metrics, for example arising from the implementation of a new model, these should be addressed promptly. Failure to do so erodes the value of these metrics. Where risk metrics are indicating a cause for concern these should be resolved and escalated as appropriate.

2.5. Firms are expected to robustly uphold their internal risk management policies, including compliance policies such as escalation policies. To ensure risk is properly managed, firms must ensure employees of all seniorities comply with such policies diligently and a firm must ensure actions taken in accordance with these policies are properly recorded. Senior Managers responsible for internal risk management policies and procedures must have sufficient knowledge of the content of those policies, an understanding of the risk metrics and the practical implications of their application on a day-to-day basis. Firms must ensure there is clear ownership, responsibility and knowledge, of risk management policies and procedures.

2.6. Many of the firms regulated by the PRA operate matrixed legal structures reflecting geographical, jurisdictional and/or business division lines. Such decisions are – subject to appropriate regulatory oversight – for firms to decide. Such structures should not, however, result in an overly complex organisation that cannot be readily navigated or which inhibits the effective management of risk. Firms must assess and directly address the underlying risks presented by a client within the structures they operate, and to appropriately manage clients and portfolios such that significant losses are avoided.

2.7. It is a basic expectation that firms must be able to learn from past experiences and sufficiently address – in a comprehensive and holistic manner – the key risks and other issues identified as part of the PRA's PSM. Firms are expected to appropriately manage clients and portfolios such that significant losses are avoided. However, in the event that losses crystallise it is incumbent on the firm to reflect on how management practices may have fallen short of regulatory expectations and/or were not commensurate with the risk profile and complexity of the firm's operations.

2.8. One of the primary aims of the SMCR was to address the drivers behind the Global Financial Crisis, including poor individual accountability within firms and incentives for excessive risk-taking or poor conduct which collectively gave rise to significant detriment. A firm should ensure clear and transparent ownership and responsibility for risk. The effectiveness of a firm's risk management arrangements is particularly important where transactions are remotely booked into the jurisdiction and there must be clear lines of escalation into relevant SMFs.

2.9. Where firms deploy the three lines of defence model, the business areas are the first line of defence, independent risk management units are the second line of defence, and internal audit is the third line of defence. If firms choose to adopt this model, then the first line must act to effectively identify, measure, manage and report risks within limits. Monitoring activities should be performed independently by the second line and the framework should also be subject to independent oversight and challenge from the third line of defence. Failures in both the first and second line of defence undermine a firm's ability to identify and manage risk. The first line business risk function should have sufficient standing to challenge the business and, where appropriate, the client. The second line function must be independent and willing to exercise the authority it has been delegated. It is vital that the second line is empowered to exercise authority to protect the business, including the exercise of contractual provisions, where applicable, such as increasing margin requirements or prohibiting further transactions with a client. This necessitates risk functions that are appropriately staffed (quantitatively and qualitatively).

2.10. The PRA expects that where internal audit identifies enhancements in a firm's risk management, these will be addressed promptly and confirmation that they have been addressed will be accurate. Approving remedial action where there has been little or no substantive improvement in a firm's risk framework undermines the integrity of the three lines of defence model.

2.11. Where new governance fora are established to, for example, address deficiencies in the governance framework of a firm, they must have a clear purpose and escalation route. It is also expected that they will be sufficiently embedded into the firm to ensure that they are able to effectively conduct the functions which have been allocated to it.

3. Failings

3.1. The PRA has concluded that during the Relevant Period the Firms breached:

3.1.1. Fundamental Rule 2 because they failed to conduct their business with due skill, care and diligence;

3.1.2. Fundamental Rule 3 because they failed to act in a prudent manner;

3.1.3. Fundamental Rule 5 because they did not have effective risk strategies and risk management systems; and

3.1.4. Fundamental Rule 6 because they failed to organise and control their affairs responsibly and effectively.

In particular:

3.2. Ultimate responsibility for the Prime Financing business booked remotely to the Firms was allocated in accordance with the PRA's SMCR and oversight exercised through use of a SLA modelled on a Credit Suisse precedent document. However, in practice the risks related to Archegos were not appropriately escalated and resulted in inadequate oversight from the UK of risk booked into the Firms. The PRA had identified remote booking and risk management as issues in its PSM Feedback letter of 2019 and subsequently – whilst acknowledging that progress had been made, but significant work was still required – in its PSM letter of 2020.

3.3. There was no clear culture of risk ownership in the first line. The first line risk function failed to challenge effectively the business and effectively manage risk related to Archegos and the second line in the UK, which was responsible for independent oversight of credit risk management, failed to demonstrate sufficient ownership of risk management with respect to transactions remotely booked into the Firms.

3.4. The Firms failed to take sufficient steps to implement an effective risk mitigation strategy in respect of Archegos, including considering the implications of a stressed scenario on Archegos' portfolio with Credit Suisse given the fact that CRM were aware that there was a real risk that the portfolio was focussed on a small pool of issuers, which was replicated with other brokers, and taking additional steps to mitigate this risk. Numerous tools at the Firms' disposal, such as increasing margin, imposing concentration and/or bias add-ons, refusing any further material transactions and/or refusing to extend maturing swaps, could have been utilised by the Firms to act in a prudent manner and mitigate the risks presented by the Firms' exposure to Archegos. Although there is limited evidence that the Firms availed themselves of the contractual rights that allowed for an increase in margin, they only did so with client agreement and never unilaterally.

3.5. CSSEL failed to act with due skill, care and diligence when deciding to approve the temporary measurement of Archegos against the 'Bad Week Equity Crash' scenario. Credit Suisse's exposure to Archegos' portfolio in Prime Financing was not dynamically margined or exchange traded and the portfolio was – across 2020 – increasingly illiquid.[3] While such factors were considered in the decision, Credit Suisse erred in its approval of the temporary measurement of Archegos against the 'Bad Week Equity Crash' scenario. Risk managers the PRA subsequently spoke to acknowledged that the decision to measure Archegos against a 'Bad Week Equity Crash' scenario was a rare event.

3.6. The Firms agreed in relevant legal documentation to increase the threshold at which Archegos was required to disclose its level of beneficial ownership (whether in stock or through swaps) to 20% in December 2020 (increased from 5%). While the new provision was not bespoke to Archegos and appears to have been a term used by CSI in ISDA agreements with other clients at the time, this is demonstrative of a failure to act with due skill, care and diligence given that the Firms were operating on the basis that there was a real risk that Archegos' portfolio with them was replicated in its portfolios with its other prime brokers.

3.7. CSI's decision to increase the PE limit in relation to Archegos' portfolio in February 2021, at the same time as Credit Suisse's counterparty rating for Archegos was downgraded, on the basis of the rationale set out in CRM's proposal and a brief follow-up conversation, was not made with due skill, care and diligence or with appropriate oversight and challenge from the UK risk function.

3.8. The Firms failed to instil a culture within the IB that appropriately balanced the considerations of risk against commercial reward. In this regard, the Paul Weiss report found that a culture of "*aggressive risk-taking and injudicious cost-cutting, as well as a complex and silo-ed organization [sic] structure that impeded the swift identification, understanding and, escalation of risk*" went beyond Prime Services. While these findings relate to CSSU, the failings had a direct and material impact on the

[3] While the underlying equities were liquid, the concentration caused the holding to be illiquid in the context of the free float.

Firms, as the UK control functions did not sufficiently challenge or appropriately scrutinise US analysis and Prime Services operated on a cross-border basis. By way of example, the operation of the CPOC is demonstrative of this failing, given that membership extended beyond Prime Services with senior representatives of Risk and CRM attending. Nonetheless, a contemporaneous attendee at the first session of the CPOC noted that the meeting "*didn't always cover all aspects of the … relationship.*" When asked to elaborate and explain what was missing, the individual replied that "*the risk part [of the relationship] for Archegos, which required a subsequent discussion on the increased CSSEL stress requirement…*"

3.9. The Firms did not exercise sufficient care in applying a bespoke scenario appetite to Archegos and no consideration appears to have been made as to the appropriateness of applying a bespoke scenario appetite to a 'BB-' client comparable (within the CSSEL limits) with the scenario appetite applied to a central counterparty or key sovereign. At the point in time that the temporary bespoke scenario appetite comparable to that applied to a central counterparty or key sovereign was applied to Archegos' portfolio, Credit Suisse had not undertaken a credit review of Archegos since November 2019. Furthermore, Credit Suisse's next credit review of Archegos, conducted in January 2021, would see Credit Suisse downgrading Archegos' credit rating. This means that not only were the Firms operating without due care, skill and diligence in applying the temporary bespoke appetite to Archegos' portfolio, but they also breached Fundamental Rule 2 by failing to act in accordance with internal policies and procedures as they relate to scenario appetites and risk monitoring.

3.10. The Firms failed to gather sufficient margin from Archegos and failed to exercise due skill, care and diligence given that they had identified that Archegos was able to post significantly lower margins, which remained static, in respect of its Prime Financing portfolio, and did not require Archegos to instead transact in a balanced way across its Prime Brokerage and Prime Financing portfolios.

3.11. The Firms failed to read across the lessons from, and to address and implement relevant remediation activities identified by, a review arising from earlier issues identified in the Remediation Review. Notwithstanding that the deficiencies identified were not within Prime Financing client relationships, there were similarities between them and the circumstances surrounding Archegos. A subsequent internal audit review found that certain actions had been prematurely closed and that certain others, where implemented, did not operate effectively. For example, the CPOC was insufficiently integrated into governance within the Firms, and members of CPOC did not fully appreciate their role and responsibilities.

3.12. CSI failed to exercise due care, skill and diligence in inadvertently allowing renewal of US$13 billion swaps (at an IM rate of 7.5%) – although this did not result in a materially worse outcome for CSI, as the swaps would have matured post-default – and by failing to avail itself of its contractual right to increase margin. While CSI was contractually required to post US$2.4 billion of VM in March 2021, had it exercised its own contractual rights earlier, this may have resulted in the conversion of some or all of the VM into IM and materially improved the outcome for CSI.

3.13. The Firms' governance fora (including but not limited to, CPOC, the UK CRC and the CSI/CSSEL RMC) failed to adequately scrutinise or discuss the risks posed to Credit Suisse by Archegos' portfolio, including when Credit Suisse decided to apply a temporary bespoke scenario appetite to Archegos' portfolio.

3.14. The Firms failed to evaluate and take due account of the risks to the Firms, and Credit Suisse, arising from their exposures in relation to Archegos' portfolio. This risk was particularly acute given the fact that at various points across the Relevant Period both PE and scenario exposure metrics of Archegos' portfolio exceeded the limits prescribed for the portfolio. The Firms failed to escalate and/or resolve internal limit breaches across both PE and scenario exposure in a timely manner. Breaches of scenario exposure greater than US$1 billion were to be escalated to global senior management; however, the PRA has seen limited evidence that, when Archegos' portfolio exceeded the various limits, the matter was escalated. In respect of PE, the Firms' staff perceived key risk metrics as being inadequate and an unreliable means of measuring the potential exposure of hedge fund clients' portfolios. The Firms failed to promptly undertake remedial action in this respect.

3.15. The Firms failed to adequately monitor and mitigate changes in Archegos' portfolio across 2020. The Firms continued to apply a low rate of IM to transactions with Archegos, reflecting the historically balanced nature of its portfolio.

3.16. Some members of the risk function within the Firms had concerns about the ownership of risk by the first line in the US and resourcing issues within the second line in the US. In response, the UK risk function should have exercised its oversight and scrutiny responsibilities over the risk booked into the Firms with increased caution; instead, the UK risk function relied significantly on the risk analysis conducted in the US for US clients whose business was remotely booked into the UK. UK CRM would defer to, and avoid challenging, US-based second line colleagues. Risk ownership was confused and there was insufficient independent and material challenge from UK-based risk functions.

3.17. The Firms' continued failure to exercise caution, and take account of all risks, when agreeing to enter into transactions with Archegos was further exemplified by the Firms' decisions to extend TRS that were reaching maturity with little or no evidence of consideration being given to requesting additional margin from the client. This was despite exchanges between PSR and CRM confirming that no further exposure would be permitted. In extending the TRS it would have been appropriate and prudent to request more margin from the client.

3.18. In the final quarter of 2020, the migration of Archegos to CSI delayed the implementation of risk mitigation measures during a time of increased concern about the size and risk posed by the Firms' exposure to Archegos' portfolio; furthermore, senior management in CRM characterised migration as one, but not the only, step to remediate the risks to Credit Suisse from the CSSEL limit excess of the client's portfolio. The focus on migrating Archegos to CSI not only delayed action being taken to address substantive risk, but also resulted in Archegos migrating to favourable terms (specifically in relation to (i) representations as to beneficial interests held elsewhere; and (ii) the timeframe for mandating the client to post for additional margin).

3.19. The Firms failed to take reasonable steps to reduce risk when it would have been prudent to do so. When, in late January/early February 2021, it was apparent that Archegos would be required to post significant IM (in excess of US$1 billion) in the event they were transitioned to the dynamic margining methodology, it was noted by PSR that *asking for US$1 billion "right away"* would be *"pretty much asking them to move their business, and the revenue profile is significant*". This position was not challenged by the Firms but should have been.

3.20. The Firms took excessive comfort from the excess VM that Archegos maintained and appeared to have a misunderstanding, in late 2020, as to the extent to which the client could require the margin to be posted to it, at its discretion. Separately, in February 2021, PSR requested US$750 million of IM but only US$500 million of additional IM was posted. At that time, it was also noted that Credit Suisse "*…thought we held more than $2bn in margin excess, which was unfortunately incorrect.*" The misunderstanding of the risk posed by Archegos' portfolio was due to the fact that excess VM was included in the Firms' calculations. This excess VM, which could be withdrawn at any time, was factored into the scenario exposure metric. This contrasted with the PE metric, which did not consider this excess VM. This discrepancy contributed to a misunderstanding of the actual risk level.

3.21. The Firms did not prioritise the migration of Archegos' portfolio to dynamic margining when it should have done. As late as 15 March 2021 (11 days before Archegos' default), CSI was willing to accept an additional US$250 million in IM to delay transitioning the client to dynamic margining, despite the fact that if Archegos had been migrated to dynamic margining at that point in time the counterparty would have been required to post additional IM of between US$1.27 billion and US$1.49 billion (although other internal analysis had suggested a day-one increase in IM of US$3 billion).

3.22. From 26 March to 15 April 2021, CSI was in breach of its liquidity coverage ratio following the default.

3.23. The Firms' staff perceived a key risk metric as being an inadequate and unreliable means of measuring the potential exposure of hedge fund clients' portfolios and the Firms failed to promptly undertake remedial action. In addition, scenario exposure was sent to CRM on an infrequent (monthly) basis, which did not provide for adequate risk monitoring of client portfolios in the second line. Issues with potential exposure and scenario limits as applied to Archegos do not appear to have been responded to.

3.24. The Firms failed to escalate and/or resolve internal limit breaches across both PE and scenario exposure in a timely manner. Breaches of scenario exposure greater than US$1 billion were to be escalated to global senior management; however, the PRA has seen limited evidence of such escalation when Archegos' portfolio exceeded the various limits to this extent the matter was escalated.

3.25. The in-person PSRC was replaced, without internal communication, by an email approval process, which may have limited the Firms' ability to provide effective oversight of risk management.

3.26. Given the cross-border nature of Prime Financing, the Firms were dependent upon appropriate risk management within the US-entities. However, both PSR and CRM failed to act as effective first and second line controls:

3.26.1. PSR allowed the Delta One desk to enter into unauthorised trades, specifically long positions that were built up over time without PSRC and/or CRM approval. When CRM suggested that they should be regarded as unauthorised trades, PSR resisted this suggestion. This does not appear to have been brought to the attention of UK PSR or CRM, or indeed senior management in the UK. This is despite the fact that the transactions discussed had been booked to CSSEL;

3.26.2. CRM raised concerns, in August 2020, as to the increased risks associated with the Firms' approach to Archegos' portfolio but it did not put in place increased controls or oversight in response; and

3.26.3. PSR and CRM were overly concerned with the potential for damaging Credit Suisse's relationship with Archegos. For example, in relation to the October 2020 temporary bespoke appetite limit request, CRM noted that the Business and PSR were aware that Archegos had other prime brokers and "*a sudden increase in the margin requirement may result in irreversible damage to the client relationship*."

Annex C: Sanction

1. Financial penalty

1.1. The PRA's policy for imposing a financial penalty is set out in '*The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure*' April 2013 (as updated in January 2016) at Appendix 2 '*Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*' (the "PRA's Penalty Policy"). The PRA applies a five-step framework to determine the appropriate level of financial penalty, as set out at paragraphs 12 to 36 of the PRA's Penalty Policy.

1.2. The PRA considered whether to calculate separate penalties in respect of the Firm's breaches of Fundamental Rules 2, 3, 5 and 6. However, the PRA concluded that a single penalty calculation is appropriate.

1.3. Separate penalty calculations have been set out for CSSEL and CSI, given they are distinct legal entities and the breaches operate over distinct periods of time.

Step 1: Disgorgement

1.4. Pursuant to paragraph 17 of the PRA's Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its regulatory requirements, where it is practicable to ascertain and quantify them.

1.5. The Firms derived no economic benefit from the breaches, including any profit made or loss avoided.

1.6. The Step 1 figure is therefore **£0**.

Step 2: The seriousness of the breach

1.7. Pursuant to paragraph 18 of the PRA's Penalty Policy, at Step 2 the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the firm – including any threat it posed or continues to pose to the advancement of the PRA's statutory objectives – and the size and financial position of the firm.

1.8. Paragraph 19(a) of the PRA's Penalty Policy sets out that a suitable indicator of the size and financial position of the firm may include, but is not limited to, the revenue in respect of one or more areas of its business.

1.9. The Relevant Period for CSSEL is 1 January to 18 December 2020. The Relevant Period for CSI is 18 December 2020 to 31 March 2021.

1.10. For CSSEL, given that the vast majority of the breaches occurred in Prime Financing, the Prime Financing revenues are an appropriate starting point and this figure is an appropriate indicator at Step 2. The 2020 Prime Financing Revenues for CSSEL were US$302,000,000.

1.11. For CSI, given a majority of the breaches occurred in Prime Financing, the revenue generated by this business is an appropriate starting point number. The revenue for Prime Financing transactions

booked through CSI for the period of December 2020 to March 2021 is US$86,000,000.

1.12. Pursuant to paragraph 19(c) of the PRA's Penalty Policy, the PRA then applies an appropriate percentage rate (the "**Seriousness Percentage**") to the starting point figure that properly reflects the nature, extent, scale and gravity of the breaches.

1.13. Pursuant to paragraphs 21 to 23 of the PRA's Penalty Policy, the PRA has taken the following factors into account to determine the Step 2 Seriousness Percentage:

a) The failure by CSSEL to adequately manage risk within the Prime Services business had the potential to adversely impact the PRA's advancement of its general objective. Had CSSEL effectively addressed the risks to Credit Suisse arising from Archegos' portfolio, whether by way of a transition to dynamic margining, increasing margining pursuant to its contractual rights, the implementation of concentration add-ons or otherwise, this would likely have significantly mitigated the losses experienced by the Firms when Archegos defaulted in March 2021. It would also likely have avoided the significant harm to Credit Suisse arising from legal and reputational damage following the losses sustained;

b) The December 2020 novation of Archegos from CSSEL to CSI represented an opportunity – which was not seized – to amongst other things, (i) review the client relationship and set appropriate IMs, (ii) ensure any limit breaches within the portfolio were remedied, and (iii) insist upon, and exercise, contractual provisions which would have protected CSI;

c) There was a culture within the Firms which prioritised reward over the prudent management of risk;

d) The Firms' risk management framework, specifically in relation to Prime Services, fell significantly below the standards expected of a systemically important institution;

e) The Firms' breaches reflected a poor control environment that senior management should have been aware of;

f) There was inadequate ownership of the risk associated with the Archegos portfolio in the Firms, despite the fact that significant risk was booked to those entities;

g) There was confusion as to who had responsibility for Archegos within Credit Suisse Prime Services with the result that there was a lack of ownership in the business; and

h) There was a failure of the second line to exercise due care, skill and diligence in managing the risks associated with Archegos' portfolio when overseeing risks originating in the US but booked into the UK.

1.14. The PRA has also had regard to the matters set out at Annexes A and B to this Notice.

1.15. Taking these factors into account, the PRA considers that the seriousness of the conduct to be such that the appropriate Seriousness Percentage is 25%. The figure for CSSEL is therefore **$75,500,000**, and the figure for CSI is therefore **$21,500,000**.

Step 3: Adjustment for any aggravating, mitigating or other relevant factors

1.16. Pursuant to paragraph 24 of the PRA's Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. Any such adjustment will normally be made by way of a percentage adjustment to the figure determined at Step 2.

1.17. In deciding whether any adjustment for aggravating or mitigating factors is warranted, the PRA has considered the following factors:

a) The Firms failed to adequately implement remedies to issues identified by the Remediation Review. If properly addressed, these remedies may have gone some way to ensuring that the losses incurred as a result of the default of Archegos were not as significant as they were.

b) Risk management practices were drawn to the attention of banks, including CSSEL, in 2018 in a *Dear CEO* letter on 'Risk Management Practices and Growth in Secured Financing Businesses'.

c) Credit Suisse was fined in excess of US$200 million by the Financial Conduct Authority for a failure to manage the risk of financial crime within its emerging market business, which noted in particular that there was "*insufficient challenge within Credit Suisse, or scrutiny and inquiry in the face of important risk factors and warnings*."

d) FINMA has also taken separate enforcement action against Credit Suisse in relation to serious breaches of supervisory obligations with regard to risk management and appropriate organisational structures for the period prior to March 2021.

e) Feedback letters following PSMs in 2019 and 2020 made clear to the Firms that risk management and controls were of concern to the PRA

f) Senior management of the Firms were aware, or should have been aware, of the risks Archegos posed.

g) The Credit Suisse Group Special Committee of the Board of Directors appointed Paul Weiss to undertake an independent investigation into its relationship with Archegos as well as risk and governance issues arising from the same. Unusually, the outcome of this investigation has been made public. Though this report did not have a UK focus (and, accordingly, did not consider the UK regulatory framework), it was nevertheless beneficial to the PRA's investigation.

h) Following the default, Credit Suisse undertook a remediation exercise through the ARP and by augmenting the Firms' existing Risk Enhancement Plan. Credit Suisse further took steps to de-risk its business, including exiting the Prime Services business.

i) Credit Suisse has been transparent and cooperative with the PRA throughout the course of their investigation.

j) The specific circumstances of UBS's acquisition of Credit Suisse, which completed in June 2023.

1.18. Considering the countervailing nature of the above factors, and taking them as a whole, the PRA concludes that in this case it is necessary to make an adjustment to the Step 2 figures of **$75,500,000** (CSSEL) and **$21,500,000** (CSI) for aggravating and mitigating factors.

1.19. Accordingly, a 30% uplift for aggravating and mitigating factors is applied and the Step 3 figure is therefore **$98,150,000** (CSSEL) and **$27,950,000** (CSI).

Step 4: Adjustment for deterrence

1.20. Pursuant to paragraph 27 of the PRA's Penalty Policy, if the PRA considers the figure arrived at after Step 3 is insufficient effective to deter the firm that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate adjustment to it.

1.21. The PRA considers the Step 3 figures of **$98,150,000** (CSSEL) and **$27,950,000** should be increased in order to achieve an effective deterrence to the Firms or other firms from committing similar breaches. The PRA considers that it is appropriate to increase the Step 3 figure to **$132,502,500** (CSSEL) and **$37,732,500** (CSI).

1.22. The Step 4 figures are therefore **$132,502,500** (CSSEL) and **$37,732,500** (CSI).

Step 5: Application of any applicable reductions for early settlement or serious financial hardship

1.23. Pursuant to paragraph 29 of the PRA's Penalty Policy, if the PRA and the firm upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA's settlement policy provides that the amount of the penalty which would otherwise have been payable may be reduced.

1.24. The PRA and the Firms reached an agreement to settle during the Discount Stage therefore a 30% settlement discount applies to the Step 4 figure.

1.25. The Step 5 figure for CSSEL is therefore **$92,751,750**.

1.26. As a result, the Step 5 figure for CSSEL in GBP is **£67,920,000**.

1.27. The Step 5 figure for CSI is therefore **$26,412,750**.

1.28. As a result, the Step 5 figure for CSI in GBP is **£19,162,000.**

1.29. The combined total financial penalty to be imposed on the Firms, inclusive of a settlement discount, is **£87,082,000**.

Annex D: Procedural Matters

Decision maker

1. The settlement decision makers made the decision which gave rise to the obligation to give this Final Notice.

2. This Final Notice is given under and in accordance with section 390 of the Act.

Manner and time for payment

3. The Firms must pay the financial penalty in full to the PRA by no later than 11 August 2023. If all or any of the financial penalty is outstanding on 12 August 2023, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by the Firms and due to the PRA.

Publicity

4. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Final Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to securing an appropriate degree of protection to policyholders.

PRA contacts

5. For more information concerning this matter generally, contact Press Office (**press@bankofengland.co.uk**).

Appendix 1: Definitions

The definitions below are used in this notice:

1. the "Act" means the Financial Services and Markets Act 2000 (as amended);
2. "Archegos" means Archegos Capital Management, a US based private investment company (often referred to as a 'family office');
3. "ARP" means the Archegos Remediation Program;
4. "CPOC" means the Counterparty Oversight Committee;
5. "Credit Suisse" means the Credit Suisse group of companies;
6. "CRM" means Credit Risk Management;
7. "CSI" means Credit Suisse International;
8. "CSSEL" means Credit Suisse Securities (Europe) Limited;
9. "CSSU" means Credit Suisse Securities (USA) LLC;
10. "Final Notice" means this final notice, together with its Annexes and Appendices;
11. "FINMA" is the Swiss Financial Market Supervisory Authority;
12. the "Firms" means CSSEL and CSI;
13. "GMV" means gross market value;
14. the "Remediation Review" means the remediation programme arising out of the 2020 IA Review;
15. "HFRM" means Credit Suisse's hedge fund rating model;
16. "IA" means Credit Suisse's internal audit function;
17. "IB" means the Investment Banking division of Credit Suisse;
18. "IM" means initial margin;
19. "NAV" means net asset value;
20. "Paul Weiss" means Paul, Weiss, Rifkind, Wharton & Garrison LLP;
21. "Paul Weiss Report" means the Credit Suisse Group Special Committee of the Board of Directors Report on Archegos Capital Management by Paul Weiss dated 29 July 2021.
22. "PE" means Potential Exposure
23. the "PRA" means the Prudential Regulation Authority;
24. "PRA Rulebook" means the Prudential Regulation Authority Rulebook;
25. the "PRA Penalty Policy" means 'The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure January 2016 – Appendix 2 – Statement of the PRA's

policy on the imposition and amount of financial penalties under the Act';

26. the "PRA Settlement Policy" means 'The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure January 2016 – Appendix 4 - Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases';
27. "PSA" means the Portfolio Swaps Annex;
28. "PSM" means the Periodic Summary Meeting;
29. "PSR" means Prime Services Risk;
30. "PSRC" means the Prime Services Risk Committee;
31. the "Relevant Period" means 1 January 2020 to 31 March 2021 (or parts thereof);
32. the "Remediation Review" means the remediation programme arising out of the 2020 IA Review;
33. "RMC" means the Risk Management Committee;
34. "SFTQ" means the Severe Flight to Quality model of scenario exposure;
35. "SLA" means a Service Level Agreement;
36. "SIMM" means Standard IM Model tool which is a form of dynamic margining;
37. "SMCR" means the Senior Management and Certification Regime;
38. "SMF" means the Senior Management Function;
39. "TRS" means total return swaps;
40. "UK CRC" means the CSI/CSSEL Credit Risk Committee; and
41. "VM" means variation margin.
42. the "2020 IA Review" means a review conducted by IA in 2020 which made remedial recommendations; and
43. the "2021 IA Review" means the report assessing the effectiveness of the Remediation Review issued in November 2021.

Appendix 2: Relevant statutory and regulatory provisions

1. Relevant statutory provisions

1.1. The PRA has a general objective, set out in section 2B of the Act, to promote the safety and soundness of PRA-authorised persons. The PRA seeks to advance this objective by seeking to ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system, as set out in section 2B(3) of the Act.

1.2. Section 206 of the Act provides:

> *"If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate".*

1.3. The Firms are authorised persons for the purposes of section 206 of the Act. Relevant requirements imposed on authorised persons include rules made under the PRA Rulebook, including the PRA's Fundamental Rules.

2. Relevant Regulatory Provisions

PRA's Fundamental Rules

2.1. The PRA has eight Fundamental Rules which apply to all PRA-authorised firms. These are high-level rules which collectively act as an expression of the PRA's general objective of promoting the safety and soundness of regulated firms. The relevant PRA Fundamental Rules are as follows:

2.1.1. Fundamental Rule 2: "*A firm must conduct its business with due skill, care and diligence*".
2.1.2. Fundamental Rule 3: "*A firm must act in a prudent manner*".
2.1.3. Fundamental Rule 5: "*A firm must have effective risk strategies and risk management systems*".
2.1.4. Fundamental Rule 6: "*A firm must organise and control its affairs responsibly and effectively*".

3. Relevant Policy

Approach to the supervision of banks

3.1. *The Prudential Regulatory Authority's Approach to Banking Supervision, June 2014* (as updated in March 2016) sets out how the PRA carries out its role in respect of deposit-takers and designated

investment firms. One of the purposes of the document is to communicate to regulated firms what the PRA expects of them, and what they can expect from the PRA in the course of supervision.

Approach to enforcement

3.2. *The Prudential Regulatory Authority's approach to enforcement: statutory statements of policy and procedure*, *October 2019* (as updated in September 2021) sets out the PRA's approach to exercising its main enforcement powers under the Act. In particular:

3.2.1. The PRA's approach to the imposition of penalties is outlined at Chapter 2 *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and

3.2.2. The PRA's approach to settlement is outlined at Chapter 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.