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UBS Faces Investor Lawsuits Over Credit Suisse Fraud Claims

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In a significant legal development, UBS is set to face two investor lawsuits tied to the dramatic collapse of Credit Suisse in March 2023. A U.S. federal judge in Manhattan has ruled that investors can proceed with their claims, accusing Credit Suisse's former executives of misleading them about the bank's true financial condition before its sudden downfall.

The lawsuits stem from allegations that Credit Suisse provided false and misleading information to bondholders and shareholders, which impacted their investment decisions.

One of the key issues involves Additional Tier 1 (AT1) bonds, a type of bank capital designed to absorb losses during financial distress. These bonds, held by U.S. investors, were written down to zero by Switzerland's financial regulator, the Swiss Financial Market Supervisory Authority (FINMA), as part of the UBS-led rescue of Credit Suisse.

Core Capital Partners, a plaintiff representing U.S. buyers of these AT1 bonds, is pursuing a lawsuit on behalf of investors who suffered losses when these bonds lost all their value. In addition, a separate lawsuit involves U.S. purchasers of Credit Suisse's American depositary shares and several other bonds. This case is moving forward as a class action, allowing a broader group of investors to join the fight.

While the judge allowed both lawsuits to proceed, she decided not to combine them. Core Capital had accused the lead plaintiff in the other case of abandoning the AT1 bondholders, but the court maintained the distinction between the two claims.

UBS has declined to comment on the ongoing litigation. Meanwhile, former Credit Suisse executives, including former CEO Ulrich Koerner, ex-chairman Axel Lehmann, and former CFO Dixit Joshi, are also named as defendants. Their legal representatives have not responded to requests for comment.

The legal arguments center on whether the financial regulator's decision to write down the AT1 bonds was the sole cause of investor losses or if prior misleading statements by Credit Suisse's leadership contributed significantly to the decline in bond values. The judge found it plausible that disclosures about the alleged fraud played a role in the bonds' value collapse, eventually leading to their total write-down.

AT1 bonds are meant to provide banks with a cushion to withstand financial turbulence. Although they rank higher than common shares in a bank's capital structure, the drastic regulatory write-down shocked many investors and triggered lawsuits across the United States and Europe.

This ruling marks a critical step for investors seeking accountability in the wake of Credit Suisse's collapse, which sent shockwaves through global financial markets. It also highlights the complex interplay between regulatory actions and corporate disclosures in determining investor outcomes.

As these lawsuits move forward, all eyes will be on the courts to see how these serious allegations against UBS and former Credit Suisse executives are addressed. The case serves as a reminder of the risks investors face when banks experience sudden financial distress and the importance of transparency from financial institutions.

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