PAKISTAN CAREENING TOWARDS POTENTIAL DEFAULT IF IMF AID DOES NOT ARRIVE: BLOOMBERG

The International Monetary Fund (IMF) could release funding to Pakistan by June under a bailout package, a *Bloomberg* report on Tuesday stated, but warned the country could be heading towards default if this does not happen. "Our base case is that the IMF will deliver the remaining $2.6 billion in aid under the current bailout program by June -- helping Pakistan wiggle through the immediate crisis -- as the country has fulfilled most of the IMF's conditions," wrote *Bloomberg* economists Ankur Shukla and Abhishek Gupta. "If the aid does not arrive, though, we think China will help plug the gap to head off a default," they added.

The economists, however, warned that "Pakistan is careening toward a potential default as soon as June unless it secures aid from the IMF" and noted that the South Asian nation would require another IMF programme to avoid default in the next fiscal year. "The country will probably need to seek another IMF bailout program or more external aid from allies to avoid default next fiscal year. If the assistance fails to materialize, we think China will step up again," wrote the economists. Currently reeling from one of its worst economic crises in history, Pakistan has been faced with a barrage of woes with a perceived default risk and downgrade by international ratings agencies reflecting the state of the economy that has also had to bear major political turmoil and frequent change in key leadership.

Pakistan remains in talks with the international lender for the resumption of the IMF's Extended Fund Facility (EFF), which has been stalled since last year. The bailout programme's revival has been deemed crucial to stabilise the economy that has been hit by a severe dollar shortage in recent months with reserves held by the central bank treading at critically low levels.

Bloomberg economists on Tuesday said Pakistan announcing a default would not bode well for China, a key strategic partner of the South Asian nation. "If it defaults, China would have much to lose -- far beyond a financial hit. Broader strategic considerations might tip the odds toward China playing a constructive role in helping Pakistan weather the crisis."

Pakistan is an important geopolitical ally of China in the region – the world's second largest economy has invested billions of dollars in major infrastructure projects under the multi-billion dollar China-Pakistan Economic Corridor (CPEC) project, which is seen as the main plank of China's ambitious Belt and Road Initiative (BRI). "A stable Pakistan is in China's interest, in our view. Any turmoil in the economy and associated social unrest that could result from a default would threaten that stability," wrote the economists. Apart from investments, China has also rolled over its funds, providing much-needed cushion to the depleted foreign exchange reserve position, which amounted to $4.3 billion as of March 10. Last week, Pakistan received a loan tranche from China of $500 million . The latest transfer is the second disbursement of US$500m for Pakistan as part of a US$1.3b rollover facility from China's ICBC. "Even so, that's not enough for Pakistan to clear its funding crunch - it has $7 billion in external debt repayments due by June and a $1.2 billion hole in its current account to fill over March to June," wrote *Bloomberg* economists.

"The government assumes that it will be able to roll over $4 billion of its debt- and squeeze by with its small reserve cushion. Trouble is, there's no guarantee that other creditor nations including Saudi Arabia that have pledged to support Pakistan will agree to roll over their loans," the economists added.

R 21-3-2023

EXCHANGE LOSSES: ECC APPROVES RS27BN TSG FOR KUWAIT PETROLEUM

ISLAMABAD: The Economic Coordination Committee (ECC) of the Cabinet, Tuesday, approved an immediate technical supplementary grant of Rs27 billion for Kuwait Petroleum Company. Federal Minister for Finance and Revenue Senator Ishaq Dar presided over the meeting. Federal Minister for Power Khurram Dastgir Khan, Federal Minister for Industries and Production Syed Murtaza Mahmud, Minister of State for Petroleum Musadik Masood Malik, SAPM on Finance Tariq Bajwa, SAPM on Revenue Tariq Mehmood Pasha, federal secretaries and other senior officers attended the meeting.

The Ministry of Energy (Petroleum Division) submitted a summary on the credit facility from Kuwait and presented that the Government of Pakistan is utilising a credit facility extended by Kuwait Petroleum Corporation (KPC) against supply of diesel oil under the term contract with PSO since 2000 and the term contract is extended every year. The PSO deposits rupee equivalent with NBP after 30 days from the bill of lading date of each shipment and the NBP transfers the cargo cost to KPC, Kuwait. In the current situation, this account has witnessed huge exchange losses due to upheaval in the rupee-dollar parity during the last 12 months.

The GoP is committed to covering these exchange losses. Considering the above situation, the ECC approved an immediate technical supplementary grant of Rs27 billion for Kuwait Petroleum Company.

The ECC considered a summary of Ministry of Kashmir Affairs and Gilgit-Baltistan on Wheat supply to Gilgit-Baltistan and approved immediate release of 25,000 MTs to GB for the months of March and April, 2023 to avoid shortage of wheat in the region, especially during the holy month of Ramzan. Keeping in view the current wheat price, the ECC granted additional amount of Rs2.9 billion through technical supplementary grant to meet urgent requirement of Gilgit- Baltistan.

The ECC further directed the Ministry of KA&GB to submit a comprehensive plan for price rationalisation in consultation with concerned stakeholders for consideration of the ECC within 30 days.

IPPs: POWER DIV ASKED TO RESOLVE PAYMENT ISSUES ON PRIORITY BASIS

ISLAMABAD: Prime Minister's Office (PMO) has asked Power Division to convene a meeting of Steering Committee on payments to IPPs at the earliest to resolve their issues on priority basis, official sources told *Business Recorder*. On March 13, 2023, Chinese Charges d'Affaires Ms/ Pang Chunxue called on Syed Tariq Fatemi, Special Assistant to Prime Minister on Coordination and raised concerns regarding power projects established under China Pakistan Economic Corridor (CPEC) initiative.

According to Chinese Charges d'Affaires, overdue payments to Chinese IPPs, currently stand at $1.5 billion, are causing huge concerns to Chinese businesses. SAPM was informed that Chinese power plants at Hubco, Sahiwal, and Port Qasim are facing currency exchange restrictions, causing difficulty in importing coal. These power plants require a specific grade coal for power production. If the same coal is purchased on spot from local market, then Nepra mandates that the price should not be higher than the price of the imported coal, which is not feasible due to exchange rate fluctuation/ rupee devaluation.

Capacity payment deduction still exists despite assurances given in the past as a result of which these power plants are being penalized for not operating at full capacity. She clarified that these power plants are not operating at capacity due to difficulty in purchasing the requisite amount of coal for power production.

SAPM noted that there are still gaps between the Revolving Fund raised by Pakistani side and the Revolving Account Agreement signed between the two countries. Due to Pakistan's import restrictions, many Chinese companies are facing difficulties in customs clearance at Karachi Port. Pang suggested that their concerns could have been discussed in meetings of Joint Committee, a forum specifically established by the Prime Minister to resolve issues of the Chinese IPPs but most regretfully, this Committee, which was to meet every two weeks, has not had any meeting since its inaugural meeting in December last year.

SAPM recommended that a meeting of the Committee be called soon wherein representatives of the Chinese embassy, as well as, the relevant companies should be invited and their concerns addressed meaningfully so that Pakistan is not viewed as less than serious in resolving Chinese concerns.

In a letter to Executive Director, Exchange Policy Department, State Bank of Pakistan (SBP), Managing Director, PPIB, Shah Jahan Mirza stated that Chinese companies are facing severe delays in executing their foreign payment obligations towards fuel suppliers and O&M contractors due to unavailability of foreign exchange; and that their Authorized Dealer, named as Standard Chartered Bank (SCB), vide its letter of February 2, 2023 has specifically mentioned that they are not in a position to arrange foreign exchange for pending payments of the Company amounting to $ 40.44 million for imports/ commercial remittances. On March 7, 2023, the Prime Minister's Office (PMO) directed the Power Division to hold a meeting with Special Assistant to Prime Minister on Power, Zafaruddin and sort out issues relating to establishment of Revolving Account meant to facilitate payments to Chinese power plants established or being established under the CPEC initiative.

KUWAIT PETROLEUM RECEIVABLES: PD SEEKS RS27BN FROM MOF

ISLAMABAD: Petroleum Division has sought Rs 27 billion from Finance Ministry to clear outstanding receivables of Kuwait Petroleum, well informed sources told *Business Recorder*.

Sharing the details, sources said that Economic Coordination Committee (ECC) of the Cabinet considered in its meeting held on December 21, 2022, a summary submitted by the Petroleum Division for a supplementary grant of Rs. 17 billion in respect of exchange losses incurred on the subject facility. ECC directed that a Committee of professionals/ along with their Terms of Reference (ToRs) be notified by the Petroleum Division.

According to sources, ToRS of the Committee included three types of facilities, i.e., KPC credit facility, FE-25 loan facilities and Islamic Trade Finance Corporation (ITFC) loans being availed by PSO for import financing purposes.

The Committee, while reviewing the matter in its meeting held on March 13, 2023, realized that report on mechanism for exchange loss on these facilities would take some time due to complexity of the issues and feedback required from some other important stakeholders. However, since an international default situation is developing on KPC credit facility payments, an immediate supplementary grant may be sought from the ECC. The Committee will; however, try to conclude the matter by end of March, 2023.

Credit facility for the last year expired on December 31, 2022; however, four transactions/ remittances are still due for which available funds will be short beyond 20 March 2023. NBP account has witnessed huge exchange losses owing to prevalent upheaval in the Rupee-Dollar parity during the last 12 months. As of March 10, 2023, NBP account has a balance of Rs. 14.3 billion, while these payments require about Rs 42 billion. “There is definite possibility of international default unless an injection of Rs 27 billion is made before March 20, 2023,” the sources quoted Petroleum Division as saying in its proposal to be considered by the ECC, in its meeting scheduled to be held on Wednesday (today).

Foregoing in view, Petroleum Division has requested for an immediate supplementary grant of Rs 27 billion for transfer of funds to NBP account in order to avoid international default. NBP may also be directed to arrange payment on March 20, 2023 through bridge financing, if required.

Petroleum Division contends that Ministry of Finance is the only stakeholder in the instant case which may offer its comments in the ECC meeting owing to paucity of the time and severity of the issue.

R 22-3-2023

‘GOVT SHOULD REVISE TIGHT GAS POLICY’

KARACHI: The government should revise its tight gas policy to nudge energy companies towards exploring natural gas that’s obtained from reservoir rocks with low permeability using advanced technology. Addressing a seminar organised by CFA Society Pakistan on Tuesday, energy sector expert Muhammad Asim Subhani said each well that’s dug for tight gas must get a third-party certification in order to receive formal price confirmation from the government. “There’s been a success (in finding tight gas). But companies are reluctant to invest because once they explore, produce (and) flare their gas, they still have to spend years in getting the price confirmed from the authorities,” said Mr Subhani who serves as director of new business and subsurface at Prime Pakistan Ltd, an exploration and production firm that formerly operated as Eni Pakistan.

At least one company is currently producing tight gas, even though the country is estimated to have reserves of 100 trillion cubic feet. He suggested that the government should notify the pricing for an entire reservoir once it’s established that the permeability of reservoir rocks is less than one millidarcy, the basic unit reflecting the capability of gas to move through a formation. “It’s is a long process that nobody wants (to undergo). It needs to be revised,” he said.

Pakistan’s gas production has been going down for years. Its reserve replenishment ratio is also less than 100 per cent, which means the country is failing to replenish its reserves at the same pace at which it’s consuming them.

In total, about 1,400 exploration wells have been drilled in Pakistan so far. Of the country’s total land measuring a little over 800,000 square kilometres, more than 75pc remain unexplored. Yet the country ranks 26th worldwide with “three to four billion cubic feet” of gas production per day. In terms of gas reserves, the country’s rank is 30th in the world. The country’s oil reserves are much smaller than gas reserves, he said. With regard to shale gas, which is found underground in less permeable shale rock, Mr Subhani said it’s economically unfeasible to dig a new well for this purpose alone. “We can only have the wells that have already been drilled. Big investments are required. We should first focus on tight gas instead of going straight to shale gas,” he said. Studies suggest the potential reserves of shale gas in Pakistan are also around 100 trillion cubic feet. Mr Subhani demanded that the government should incentivise drilling by cutting back on royalties, which are payments that energy companies make to the government for exploration and production rights. He claimed these companies already pay the government up to 52pc of their revenues in the form of royalties and corporate tax.

“The government is being harsh (on exploration firms). It needs to incentivise (drilling in) declining fields to keep them economical,” he said. But the government is “adding to royalty payments,” he said, noting that its current approach may lead to vast amounts of hydrocarbons staying unexplored in those fields. In response to a question, Mr Subhani said foreign exploration companies were exiting Pakistan mainly because of the security threats. Italian oil company Eni sold its assets to Prime Pakistan Ltd in 2021. BHP of Australia and OMV of Austria also divested their assets a few years ago.

Dawn 22-3-2023

HBFCL SELL-OFF: PC BOARD BRIEFED ON PRE-QUALIFICATION BODY'S REPORT

ISLAMABAD: The Privatisation Commission (PC) Board was briefed about the report of the pre-qualification committee for the privatisation of House Building Finance Company Limited (HBFCL) which has been part of the active privatisation list since 2018.

The meeting was held Tuesday under the chairmanship of Abid Hussain Bhayo, Chairman PC Board. The board members, Federal Secretary, Privatisation Commission, and senior officials of the ministry were also present. The board was briefed about the ongoing transactions and the matters requiring the attention of the Board and the line ministries.

The Board agreed to the recommendation to pre-qualify both firms to take the process to due diligence stage and meanwhile any further clarification, if required, be sought from the bidders. The CEO HBFC apprised the Board about the performance of the corporation, highlighted future action plan, elaborate the initiatives envisioned and sought approval of the PC Board, as required under the PC Ordinance 2000, for those initiatives.

The Board while appreciating the proposal suggested that the HBFC privatization transaction was at an advance stage and that any initiative having financial implications may be avoided at this stage. Furthermore, the potential buyer may be given the choice to introduce reforms as per its business plan and requirements. The Board also considered the audited accounts of the Privatisation Commission for the year ended June 30, 2014 and acknowledged the efforts of the Board Audit Committee in finalisation of the audited accounts. The Board, however, sought a few clarifications and desired that the management clarifications be brought before the Board in its next meeting.

REQUIREMENTS OF MAINTAINING ECR, BMR ABOLISHED: RATING REQUIREMENTS FOR SECURITIES BROKERS SIMPLIFIED

ISLAMABAD: The Securities and Exchange Commission of Pakistan (SECP) has simplified the rating requirements for securities brokers and abolished requirements of maintaining the specific Entity Credit Rating (ECR) and Broker Management Rating (BMR).

In this connection, the SECP issued an SRO 361 (I)/2023 on Tuesday to amend the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017. The aim of these amendments is to simplify the rating requirements for securities brokers in order to promote efficiency in the capital market.

According to the details of the decision, in order to further rationalise the rating requirements for securities brokers, it is proposed to move towards a single rating regime, as planned, based on BMR. The brokers shall be required to obtain the prescribed Broker Fiduciary Rating (BFR) upon expiration of their existing ECR or BMR rating as appropriate, or within six months from the date of implementation of these amendments, whichever comes later. Hence, their existing ECR and BMR ratings shall remain valid until expiration. Under the previous regulatory framework, securities brokers may be required to obtain multiple ratings such as the Entity Credit Rating (ECR) and Broker Management Rating (BMR) to perform various activities. The concept of Broker Fiduciary Rating (BFR) was introduced with the aim of having a single ratings regime for securities brokers through the phase-wise implementation of the BFR.

The purpose of the current amendments is to give effect to the planned regime by abolishing the requirement for securities brokers to maintain a specific ECR or BMR rating, and prescribing the minimum BFR to be maintained, where applicable. This requires introducing amendments in the Securities Brokers (Licensing and Operations) Regulations, 2016 ("Brokers Licensing Regulations") and the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017 ("Public Offering Licensing Regulations"). As per revised amendments, the minimum rating requirement for Trading and Clearing (TC) brokers under Brokers Licensing Regulations shall be changed from ECR of A- to BFR 2. The minimum BFR required to be maintained by Trading & Self-Clearing (TSC) brokers under Brokers Licensing Regulations shall be specified as BFR 3.

The BFR required to be maintained by brokers applying for the license of Consultant to Issue (CTI) under Public Offering Licensing Regulations shall be specified as BFR 3+.

The brokers applying for the license of Underwriter are presently required to obtain a minimum ECR of A- or A2 under Public Offering Licensing Regulations. They may alternatively maintain a minimum of BFR 3++. All requirements for brokers to obtain BMR shall be abolished, sources added. Under the SRO 361 (I)/2023, in the case of a securities broker, it has obtained a minimum broker fiduciary rating of BFR 3+ from a credit rating company licensed by the commission: Provided that all existing securities brokers licensed as consultant to the Issue shall obtain Broker Fiduciary Rating within such time as may be specified by the commission, it added.

MEDICINE IMPORTERS FACE HUGE LOSSES DUE TO RUPEE DEVALUATION

KARACHI: Pharmaceutical sector is expecting a severe shortage of lifesaving medicines in the country as the importers of finished pharmaceutical products suffer losses to the tune of billions due to uncertain rupee-dollar parity, pharmaceutical importers told *Business Recorder* on Tuesday.

The importers of finished pharmaceutical products have suffered a devastating blow due to the massive devaluation of the PKR, which is to the tune of 78% from July 2020 till date. They said that moreover the prices of products in the international market have also gone up due to various reasons, the main causes of which have been the Covid 19 pandemic, the Ukraine war, and an unprecedented rise in global inflation.

In a letter written to Drugs Regulatory Authority of Pakistan (DRAP), the Pakistan Chemists and Druggists Association (PCDA) highlighted the factors emerged due to ailing economy like cost of fuel, electricity, freight charges, cold chain maintenance, packing material, and the imposition of a cumulative 4 percent non-adjustable sales tax at the import stage. These factors are disastrous for sustainability of business, when the ceiling prices have been fixed by the DRAP, they said.

The letter reads: “The Cap of three years on hardship cases, as per the amended 2018 pricing policy, needs to be readdressed”. The letter further said the devaluation of the PKR has been extremely critical, and there is no set formula or prediction how the PKR will behave. Historically, once a new high is reached, the PKR has never retreated. Imported products, especially, general anaesthesia, plasma derived products, vaccines, oncology products, specialty hormones, and cardiac enzymes/ heparin, have been greatly impacted. In absence of these products, which is now a ground reality, there would be a definite medical disaster. These products are not locally manufactured, and they are 100% impacted by devaluation. Based on documentary evidence, the pharma dealers demanded they should be allowed to apply for hardship, as and when required. “As there is a Force Majeure situation that the importers are presently facing, there needs to be an across the board price allowed as an interim relief. Products that have become unviable today cannot be imported as they are not viable. The losses being borne by our members in public and private sector tenders is another factor why they are unable to continue supplies”, the letter said.

IPO PAKISTAN VOWS TO SIMPLIFY IP PROCEDURES

KARACHI: Chairman Intellectual Property Organization (IPO) Pakistan Farrukh Amil, while expressing his resolve to simplify Intellectual Property (IP) procedures which was a constantly evolving and technology driven activity, said that under its long-term strategy, IPO Pakistan wants to simplify the cumbersome IP procedures through digitalization which would enable individuals and companies to get their products, services and other exclusive material registered even through their smart phones as being done in developed countries around the world.

“IP is a neglected subject in Pakistan as people here are largely unaware about the significance of trademarks, copyrights and patents. Hence, we need to introduce IP-related curriculum at our schools as done in many countries. Currently, only those Pakistani students at university level learn about Intellectual Property who chose to go for any specialized course or degree while the legal fraternity is also aware of its importance but the general public remains totally unaware which needs special attention”, he added while speaking at a meeting during his visit to the Karachi Chamber of Commerce & Industry (KCCI).

Chairman Businessmen Group Zubair Motiwala, President KCCI Mohammed Tariq Yousuf, Vice President Mohammad Haris Agar, Chairman WTO, IPR, FTA & Regional Trade Shamim Ahmed Jumlana and KCCI Managing Committee Members were also present. While seeking KCCI’s suggestions for improving IPO’s services and assuring full support and cooperation to the business community of Karachi, Chairman IPO said that strict enforcement of IPR laws along with stringent punishments and heavier fines were critical for protecting the interest of producers and save the public from counterfeit products. “It is a very serious issue as even fake medicines and food stuff were widely being produced which put the lives of poor public at stake,” he said, adding that heavier fines and dire consequences for breaking the law would certainly be a huge deterrent for counterfeiting.

“Administrative and political will has to be exhibited; otherwise, all the best strategies and all of the best legislations won’t attract foreign investors who get discouraged as our country is not part of relevant IP-related international treaties,” said Farrukh Amil. He said investors’ confidence would only increase if we have strict enforcement. He also advised the manufacturers to look into the aspect of bringing down prices of their finished goods as it was also one of the reasons which encourages sale of look alike fake products being sold in the local markets at cheaper rates. Chairman BMG Zubair Motiwala, in his remarks, stated that Intellectual Property Rights was the norm of business today and without IP rights, the country cannot move forward.

CRYPTOVERSE: BITCOIN PASSES THE BANK STRESS TEST

As crisis stalks the traditional world of stocks and bonds, bitcoin is suddenly looking like a safe haven. The infamously volatile cryptocurrency seems positively hale and hearty, just as a banking meltdown drives markets into the arms of a recession. Bitcoin has risen 21% this month, while a choppy S&P 500 has lost 1.4% and gold has gained 8%. "If you were going to describe an environment where there were successive bank runs because central banks are trying to fight inflation with fast rate increases, that is pretty close to as spot-on a thesis for owning bitcoin as you've ever heard," said Stéphane Ouellette, CEO at digital asset investment platform FRNT Financial.

The cryptocurrency has, for now, severed its ties with stocks and bonds and tagged on to a rally in gold, fulfilling at least one part of creator Satoshi Nakamoto's dream - that bitcoin can serve as a refuge for suffering investors. Bitcoin's 30-day correlation with the S&P 500 has slid to negative 0.12 over the past week, where a measure of 1 indicates the two assets are moving in lock step.

A selloff in banks has wiped out hundreds of billions of dollars in market value and forced US regulators to launch emergency measures. The past couple of weeks has seen Silicon Valley Bank and crypto lender Silvergate go under, while Credit Suisse has teetered on the brink.

'Return to core ethos'

Let's not carried away, though. This is bitcoin. "The bearish argument would be that these dynamics are temporary, and ultimately this rally is not going to sustain," said Ouellette. It remains to be seen if bitcoin's bullishness will endure as attention shifts to the Federal Reserve's policy meeting this week where the US central bank must walk a fine line as it fights inflation and bank stresses. Furthermore, the cryptocurrency's allure hasn't all been about safety. The rapid price rise has forced some short-sellers to cut their bets and buy coin back.

Data from Coinglass shows traders liquidated $300 million worth of crypto positions on Monday, with most of that total - $178.5 million - short positions. Nonetheless, bitcoin is resurgent. It now commands nearly 43% of the total crypto market, its highest share since last June, according to CoinMarketCap data, while the total cryptocurrency market's capitalization has jumped 23% to $1.1 billion since March 10. "We're seeing a return to bitcoin's core ethos, that of a financial asset independent from the opacity and meddling of the centralized financial system," said Henry Elder, head of decentralized finance (DeFi) at digital asset investment manager Wave Digital Assets.

The mainstream bank crisis has also fueled some interest in DeFi, with the total value of tokens linked to such platforms rising to $49 billion from $43 billion over the past week, according to DappRadar.

Bitcoin in a bank crisis

Not all areas of the digital world have been immune to the banking fallout, though. The no. 2 stablecoin Circle USD or USDC lost its 1:1 peg to the dollar after disclosing its reserves were parked at the shuttered Silicon Valley Bank. As worries spread over USDC's ability to maintain its peg, its market cap slid to $36.8 billion last Friday from $43.8 billion a week earlier, even as leading stablecoin Tether gained around $4 billion. Market participants said some USDC withdrawals were likely reinvested in bitcoin as well, helping fuel the rally. "It's too soon to say that bitcoin has proven the narrative that it's an alternative in a banking crisis," cautioned Ed Hindi, Chief Investment Officer at Tyr Capital in Geneva. But he added: "The rally we are currently witnessing in bitcoin will be looked back at as the point in time where its main property as a decentralized non-sovereign asset was stress tested."

R 21-3-2023

SWITZERLAND CURBS BONUS PAYOUTS AT CREDIT SUISSE

March 21, 2023

ZURICH, March 21 (Reuters) - Swiss authorities imposed curbs on bonus payments for Credit Suisse (CSGN.S) employees, a move that will penalise bankers after a multi-billion-franc state rescue of the bank.

Switzerland's government said on Tuesday that Credit Suisse was ordered to "temporarily" suspend "already granted but deferred variable remuneration," like shares, awarded in the years up to 2022.

The government said that it would not retroactively ban already paid or immediately payable bonuses for the year 2022. "The aim of this is also to avoid impacting employees who did not themselves cause the crisis," it said. It is highly unusual for a government to impose a halt to bonus payouts, but there has been public backlash against bonus payments at the bank whose rescue was backed by roughly 260 billion Swiss francs ($280 billion) of state funding and guarantees.

Swiss unions earlier on Tuesday had demanded that management bonuses be halted. Bank employee groups have also been angered by potential job losses, demanding special protections. "It has to be read as recognition that major mistakes have been made at Credit Suisse and it would be so inappropriate if the board received any variable compensation at this time," said Clive Howard, employment law partner at Keystone Law. The takeover had created angst among staff about their bonuses. It was unclear how many of Credit Suisse's 50,480 employees would be affected. Credit Suisse declined to comment.

Battered by years of scandals and losses, Credit Suisse for months had been battling a crisis of confidence. Its demise was sealed in a matter of days last week, and Swiss authorities over the weekend brokered a takeover of the bank by its larger rival UBS. To temper risk-taking after the global financial crisis more than a decade ago, authorities introduced rules to defer compensation and allow for clawbacks for senior employees.
Credit Suisse's executive board took home 32.2 million Swiss francs in fixed compensation for 2022 but collectively went without a bonus for the first time in more than 15 years. The bank's bonus pool shrank by 50% in 2022 to 1 billion Swiss francs, according to its annual report.

The Swiss government also instructed its finance ministry to propose further measures on variable remuneration for Credit Suisse.

Pierre-Yves Maillard, president of the Swiss trades union federation, said managers should not get bonuses as a matter of "decency". "We should even ask for them to pay back what they gain those past two years," he said before the government's announcement.

https://www.reuters.com/business/finance/swiss-govt-suspends-forms-variable-remuneration-credit-suisse-2023-03-21/