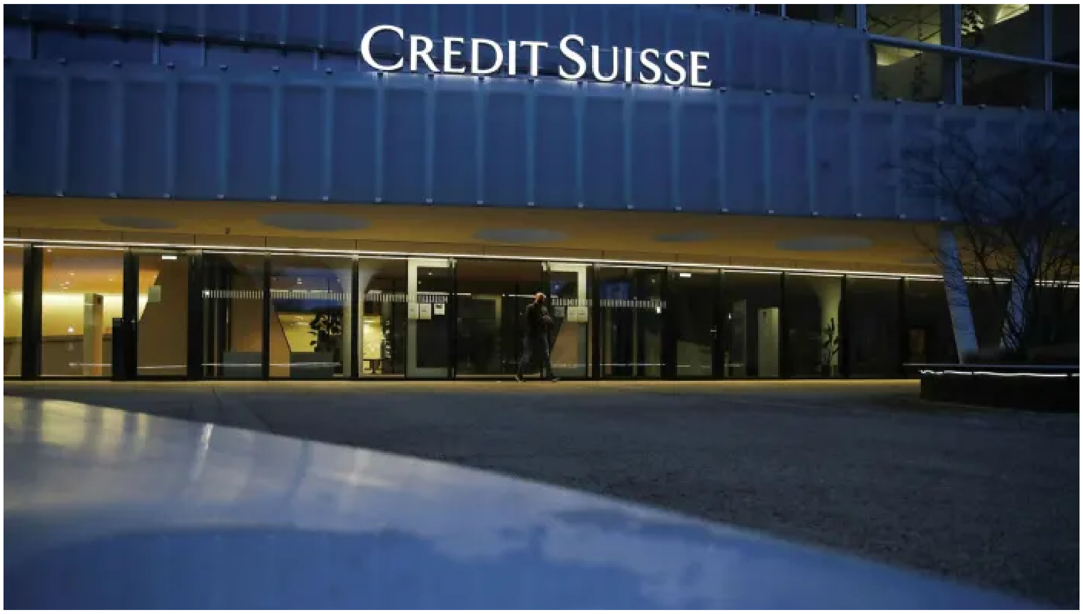
Credit Suisse Group AG

Credit Suisse executives 'overruled' risk managers on $160m loan to Greensill

Collapsing finance group told UK court this week there was 'no conceivable way' it could repay debt



Swiss bank Credit Suisse is scrambling to gauge the magnitude of its exposure to Greensill © Stefan Wermuth/Bloomberg

Stephen Morris, **Robert Smith**, **Arash Massoudi** and **Owen Walker** in London MARCH 11 2021

Senior Credit Suisse executives overruled risk managers to approve a $160m loan to Greensill Capital, which the collapsing finance group now has "no conceivable way" to repay, according to people familiar with the matter.

Several people with direct knowledge of the loan said that it was initially rejected by London-based risk managers in the investment bank.

That decision was then overruled by senior executives at Credit Suisse, which had developed a lucrative multi-layered relationship with the financing firm and its Australian founder, Lex Greensill. Eventually Lara Warner, the bank's chief risk and compliance officer, signed off on the loan in October, the people added.

The financing was supposed to be a bridge loan until the company completed a private fundraising round. But this week, as Greensill filed for administration, it told a UK court there was "no conceivable way" it could repay the debt, which now stands at $140m after a portion was repaid.

Credit Suisse is now scrambling to gauge the magnitude of its exposure to Greensill, while assigning blame. Executives are also trying to get to grips with the bank's exposure to heavily-indebted steel tycoon Sanjeev Gupta's troubled empire GFG Alliance.

A significant portion of the Credit Suisse funds comprised loans from Greensill to GFG, which has now started to default on the debt. The exposure is at least $1bn-$2bn, said people with direct knowledge of the dealings.

The revelations add a further twist to Credit Suisse's entanglement with Greensill, whose former-billionaire founder is personally a major client of its private bank, alongside his company's relationships with its investment bank and asset management arms.

Lex Greensill, the Australian founder of finance group Greensill Capital © Ian Tuttle/Shutterstock

It highlights the risks of the bank's "integrated platform" strategy, which aims to boost earnings by cross-selling products from multiple divisions to ultra-wealthy entrepreneurs.

The Zurich-based bank is facing questions from regulators in Australia, the UK, EU, Switzerland, Luxembourg and Liechtenstein over its group-wide risk management and conflict of interest procedures, according to people familiar with the matter.

Chief executive Thomas Gottstein has told colleagues that he has never met Greensill in person and has had only one phone call with him, said people with knowledge of the discussions. The board is being regularly briefed on the internal review into the affair, which is focused on asset management, audit, credit and risk functions.

On Wednesday, Credit Suisse suspended three employees. A person familiar with the investigation said more staff involved would eventually be forced out — once they have assisted clients with recovering their money — and others responsible may have their compensation “slashed dramatically”.

The bank has also drafted in external advisers from Swiss law firms and management consultancies to prepare for questions from regulators and clients.

Greensill’s collapse was triggered by Credit Suisse’s decision last week to suspend $10bn of supply-chain finance funds, which offered exposure to loans made by Greensill and were marketed by the bank to its asset management clients. That decision came after a key insurance policy lapsed.

“There is some finger pointing going on,” said one person briefed on internal investigations into the circumstances surrounding the bridge loan. “All the risk teams are telling the probe that they said no, but it was escalated and they were overruled.”

Another person involved added that the loan was “hugely controversial” and was “imposed from above” by the “top brass” — in their view without sufficient internal discussion or due diligence.

The money lent to Greensill last October was in addition to a pre-existing loan the bank had extended to the business out of its Asian office, several people said. Partly due to the internal controversy over the size of the exposure, about half was booked through Credit Suisse’s Asian unit with the remaining $70m in the UK.

A spokesperson for the Greensill family said the fact the loan was booked through two offices was “categorically untrue”.

Credit Suisse said: “The loan is secured against cash and receivables.” A person briefed on the process said the Greensill bank account that was used as part collateral for the loan had been frozen and Credit Suisse expected to receive cash from the account by next week.

Last year, the lender launched a review of the supply-chain finance funds after the FT revealed that SoftBank had poured more than $500m into the funds, which then made big bets on the debt of struggling start-ups backed by the Japanese technology conglomerate's Vision Fund.

Then in September, Credit Suisse chief Gottstein also started a broader appraisal of the lender's overall asset management strategy and has already closed some funds and laid off staff.

However, the Greensill-linked supply-chain finance funds survived the cull. As recently as December, asset management head Eric Varvel was publicly highlighting the success of the funds to investors, praising them as "innovative" and "higher-margin" fixed-income offerings that he wanted to do more of.

While Varvel remains in place, several of his subordinates have been placed on leave, including Michel Degen, head of asset management in Switzerland and Emea; Luc Mathys, head of fixed income in the region; and Lukas Haas, a portfolio manager for the funds.

They have been replaced on a temporary basis by Filippo Rima, head of equities in Switzerland and Emea, and Alexandre Bouchardy, head of asset management strategy.