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MARKETS

Credit Suisse Pleads Guilty in Criminal Tax Case

Agrees to Pay \$2.6 Billion to Settle Probe by U.S. Justice Department

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CEO Brady Dougan, addressing Credit Suisse's annual shareholder meeting in Zurich on May 9.
Reuters

WASHINGTON— Credit Suisse Group AG became the first financial institution in more than a decade to plead guilty to a crime Monday when the Swiss bank admitted it conspired to aid tax evasion and agreed to pay \$2.6 billion to settle a long-running probe [by the U.S. Justice Department](#).

Attorney General [Eric Holder](#), in announcing the charges, said the bank engaged in an "extensive and wide-ranging" scheme to help wealthy Americans hide assets. [\(Read the Justice Department announcement.\)](#)

The criminal charge filed Monday in federal court outlined a decadeslong, concerted attempt by Credit Suisse to "knowingly and willfully" help thousands of U.S. clients open accounts and conceal their "assets and income from the IRS." Mr. Holder said the bank destroyed account records sent to the U.S. for client review, concealed transactions and "failed to take even the most basic steps to ensure compliance with tax laws."

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Even after a U.S. crackdown on Swiss accounts in 2008 led Credit Suisse and rival UBS AG to tighten restrictions on the kinds of services they would provide to American customers, they continued to take steps that hindered investigators, the filing said. Credit Suisse didn't conduct a thorough inventory of the accounts its managers oversaw, and some managers helped clients move their assets to other offshore banks so they would remain hidden to the U.S., according to the filing.

When it became clear in 2010 that the Justice Department was investigating the bank's conduct, Mr. Holder said Credit Suisse "failed to retain key documents, allowed evidence to be lost or destroyed, and conducted an inadequate internal inquiry."

"This conspiracy spanned decades," Mr. Holder said. "Credit Suisse not only knew about this illegal, cross-border banking activity; they willfully aided and abetted it.

Hundreds of Credit Suisse employees, including at the manager level, conspired to help tax cheats dodge U.S. taxes."

Prosecutors have charged eight former Credit Suisse employees with helping aid tax evasion.

In a statement, Credit Suisse Chief Executive [Brady Dougan](#) said "we deeply regret the past misconduct that led to this settlement." The bank said the penalties will slash its profit in the current quarter by \$1.8 billion but it expects no "material impact" on operations from the settlement. The bank said it would reduce assets and sell real estate to recapture its capital ratio, a key measure of the bank's ability to absorb losses. Credit Suisse's capital buffer is closely monitored by Switzerland's financial regulator, Finma.

[The financial terms of the settlement](#) include a \$100 million payment to the Federal Reserve, more than \$715 million to the New York Department of Financial Services, and about \$1.8 billion to the Justice Department. Credit Suisse already has set aside more than \$800 million, or about a third of the total settlement, to deal with the issue.

While Credit Suisse isn't turning over names of account holders as part of the agreement, they are handing over information that Deputy Attorney General James Cole said would lead to specific account

holders.



Credit Suisse Chief Executive Brady Dougan *Reuters*

"There's going to be a substantial amount of information that we're going to get that will enable us to find out who the account holders are and take the appropriate action," Mr. Cole said.

The Swiss cabinet said in a statement that it is pleased that the settlement won't cause the bank to lose any licenses, and that Credit Suisse didn't ultimately require emergency legislation enabling it to sidestep bank-secrecy laws in order to provide client identities to U.S. authorities.

The settlement marks the Justice Department's biggest victory in its crackdown on tax evasion since UBS agreed to pay \$780 million as part of a deferred-prosecution agreement in 2009. As part of that deal, UBS acknowledged aiding U.S. tax evasion but didn't plead guilty.

Still, some said the department didn't go far enough.

Sen. Carl Levin (D., Mich) said it is "a mystery to me why the U.S. government didn't require as part of the agreement that the bank cough up some of the names of the U.S. clients with secret Swiss bank accounts."

Sen. Charles Grassley (R., Iowa) said "it might turn heads on Main Street that this is characterized as a sharp rebuke when the bar has been so low for Wall Street for years. Maybe we'll see some top individuals held criminally liable at some point but not today."

Prosecutors took steps to limit the potential ripple effects from a guilty plea by winning assurances from state and federal regulators not to take punitive measures that would cripple the bank, such as stripping Credit Suisse of its ability to operate in the U.S. The bank's chief executive and chairman aren't expected to lose their jobs over the case, despite calls by some in Switzerland for them to leave the firm. Credit Suisse hasn't responded to those calls.

In extracting a guilty plea, prosecutors are gambling that the criminal charge won't harm the bank in unanticipated ways. Prosecutors have won admissions of guilt before, sometimes with catastrophic outcomes. Junk-bond powerhouse Drexel Burnham Lambert Inc. ultimately collapsed after pleading guilty to six counts of fraud in 1989 and accounting giant Arthur Andersen was felled by a criminal indictment.

As Credit Suisse's problems first arose, executives generally expected a settlement was possible for less than \$500 million, according to a person familiar with the bank's thinking—a sum that reflected the size of the bank's business with undeclared American assets compared with UBS's. UBS was charged with helping Americans hide about \$20 billion in assets from tax authorities.

Previously

A spokesman for Finma declined to comment on the

Credit Suisse Nears Guilty Plea in \$2.5 Billion Settlement**Lawsy Is Wrinkle in Bank Probes****Holder Tightens the Squeeze on Banks****Credit Suisse Assures on Resolving U.S. Tax Issue****Credit Suisse Nears Record Tax Plea****Criminal Charges Eyed for Two Banks**

possible impact of the settlement on Credit Suisse's stability.

Still, Credit Suisse's relationships with its clients and partners may take a hit. Many pension and mutual funds have guidelines that prevent them from dealing with institutions that have pleaded guilty to criminal charges. Other clients may simply choose to steer clear of a bank

perceived to have trouble, experts say.

"If you're a customer and you have a choice between a bank that has a reputational hit versus one that doesn't, you might decide to go with the one that doesn't," said Andrea Bonime-Blanc, who runs GEC Risk Advisory, a consultancy.

Others were more sanguine.

"The fact that [Credit Suisse] made a mistake doesn't necessarily detract from being a well-managed company," said Eli Butnaru, chief executive officer of the U.S. office of Mora Wealth Management, a Credit Suisse client with dual headquarters in Zurich and Miami.

Mr. Butnaru said he has no intention of stopping doing business with the bank. His firm owns a few million dollars of the bank's stock for high-net-worth individuals and also trades with Credit Suisse.

Credit Suisse shares, which slid 0.5% on Monday, have fallen 4.4% since the beginning of the year, when speculation a settlement was at hand began picking up. UBS, by contrast, has risen 4.1%.

The end of the criminal case won't mean the end of the bank's legal troubles over an alleged pattern of helping Americans hide funds from the Internal Revenue Service.

The U.S. government still is seeking the names of account holders who may have dodged taxes through the Swiss bank, according to people with knowledge of the case.

Those efforts are complicated by Switzerland's own bank-secrecy laws, as well as the possibility of lawsuits in that country if the bank tries to turn over that information to U.S. investigators.

It also doesn't end the government's broader tax-evasion probe. Roughly a dozen Swiss banks are still subjects of criminal investigations by U.S. authorities and more than 100 other banks in the country are taking part in a self-reporting program run by the Justice Department.

The bank has been negotiating with American authorities for months over details of the settlement, including what specific conduct the bank would admit, the size of the financial penalties, and the possible aftereffects of such a guilty plea.

In March, a former Credit Suisse banker pleaded guilty in federal court in Virginia to helping U.S. clients hide money in Switzerland and agreed to cooperate with the investigation.

Earlier this year, Mr. Dougan appeared before a Senate subcommittee and said he "regrets very deeply" having aided American tax evasion but said the conduct was limited to a small group of employees.

In response to a government crackdown on Americans hiding money overseas, more than 43,000 taxpayers joined a voluntary Internal Revenue Service disclosure program to acknowledge previously unknown accounts and collectively paid more than \$6 billion in back taxes, interest, and penalties, according to a Senate report released earlier this year.

The report estimated that in 2006, Credit Suisse had more than 22,000 U.S. customers with Swiss accounts, though it wasn't clear how many of those were hidden from the IRS. The Senate panel concluded Credit Suisse actively recruited wealthy Americans to open secret Swiss accounts.

Credit Suisse's expected plea deal is one of several big bank cases that the Justice Department is seeking to resolve in coming months.

Federal prosecutors also are negotiating a multibillion-dollar settlement with French bank BNP Paribas to end an investigation into alleged evasion of sanctions, according to people familiar with the discussions. As in the Credit Suisse case, prosecutors are seeking a guilty plea from BNP Paribas as part of any settlement. BNP has declined to comment on the case.

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