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Research Update:

Spain-Based Credit Suisse Securities Sociedad de Valores Assigned 'A/A-1' Ratings; Outlook Positive

Primary Credit Analyst:
Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd.ackermann@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt (49) 69-33-999-166; anna.lozmann@spglobal.com

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Overview

- As part of its Brexit-related contingency plan, Credit Suisse has designated its wholly-owned and fully licensed, Spain-based, nonbanking investment firm, Credit Suisse Securities Sociedad de Valores S.A. (CSSSV), with the critical role of ensuring the group can provide banking business and other financial services across the European Economic Area if and when the U.K. leaves the EU. We believe the group would support CSSSV under all foreseeable circumstances if needed.
- We expect the group will gradually inject additional capital and funding into CSSSV, while transferring operations and customers to the Spanish firm, ahead of the U.K.'s expected exit from the EU in March 2019. This will reduce CSSSV's focus on Spain to below 10% of its total exposure.
- We are assigning our 'A/A-1' ratings to CSSSV, in line with those on its direct parent Credit Suisse AG and the group's other core operating subsidiaries.
- Our positive outlook on CSSSV reflects our outlook on Credit Suisse AG and incorporates our expectation that CSSSV will successfully carry out its broader role for the group in 2019.
- We are also assigning CSSSV our 'A+/A-1' resolution counterparty ratings (RCRs).

Rating Action

On Oct. 11, 2018, S&P Global Ratings assigned its 'A' long-term and 'A-1' short-term issuer credit ratings to Spain-based Credit Suisse Securities Sociedad de Valores S.A. (CSSSV). The outlook is positive. We also assigned CSSSV our 'A+' long-term and 'A-1' short-term resolution counterparty ratings (RCRs).

Rationale

In preparation for the U.K.'s expected exit from the EU, and under the assumption that U.K. financial firms will lose their right to "passport" or sell their services across the EU, Credit Suisse will rely primarily on CSSSV to carry out its capital markets activity in the European Economic Area (EEA). Given the importance of capital markets in the EEA to Credit Suisse, we expect

CSSSV will become an integral subsidiary to the group's strategy. As such, we consider CSSSV to be a core subsidiary that would receive support from the group under any foreseeable circumstances. We therefore rate CSSSV in line with its direct parent, Credit Suisse AG, as with other core subsidiaries of the group.

CSSSV is a Spain-based nonbanking investment firm subject to the EU Capital Requirements Regulation and it is a wholly owned subsidiary of Credit Suisse AG, the main operating entity of the Credit Suisse group. CSSSV will work closely with bank-licensed Credit Suisse (Deutschland) AG, based in Germany. The firm will provide Credit Suisse's international clients with a wide variety of services, principally fixed income and equities brokerage and trading, and access to stock markets in the region. We see the products offered and territories served by CSSSV as integral to the group's long-term strategy.

CSSSV already holds a license as a securities trading entity ("sociedad de valores") from the National Securities Market Commission (CNMV), and it has been operating as the group's broker for Spanish securities for decades. While there are still some regulatory approvals needed for CSSSV to fully absorb the group's activities with EEA customers, we understand that the existing license enables CSSSV to take over the critical activities even without these additional approvals. We expect that Credit Suisse AG will gradually inject additional capital into the subsidiary while transferring customers currently served by the group's U.K. subsidiaries.

We understand that Credit Suisse will gradually pay material amounts of additional equity into CSSSV as it onboards clients. The firm will remain fully integrated in the wider group, leveraging the group's client base, sharing operational infrastructure, and utilizing common risk-management systems, notwithstanding the existence of its own control and corporate governance structure. CSSSV will operate as the principal booking vehicle for the group's EEA operations, rather than as a stand-alone business, and is embedded in the group's regional and functional management structure.

CSSSV is part of the consolidated Credit Suisse group. As such, its capital and liquidity will likely be managed at the group level, with CSSSV paying dividends and receiving capital injections as needed, while maintaining capitalization comfortably above the regulatory minimum. We understand that CSSSV will continue to meet regulatory requirements and, if necessary, the group would play a supportive role to ensure that CSSSV remains adequately capitalized. We note that CSSSV plans to source its unsecured term funding from the group, which would be downstreamed when CSSSV needed it. We also assume that CSSSV would have access to the group liquidity if needed.

Since we base the rating on CSSSV on our expectation that the Credit Suisse group would support CSSSV under any foreseeable circumstances, we have not assigned a stand-alone credit profile to CSSSV. Instead, we align the ratings on CSSSV with the 'a' supported group credit profile (GCP) of the group and the 'A' long-term issuer credit rating on Credit Suisse AG and the group's other core operating companies. We use the supported GCP as the reference point for equalization of the ratings because we anticipate that, if the Credit Suisse group underwent a resolution process, CSSSV would benefit from the group's additional loss-absorbing capacity (ALAC). ALAC is an S&P Global Ratings measure similar to regulatory total loss-absorbing capacity (TLAC), and mainly incorporates debt issued by Credit Suisse's nonoperating holding company (Credit Suisse Group AG) that could support its operating subsidiaries in the case of resolution.

We believe that Credit Suisse may eventually aim to demonstrate in its resolution plan that CSSSV would clearly have enough capital and liquidity to survive a bail-in at the group holding company, given CSSSV's increasing size and importance to the group's overall strategy. Our rating on CSSSV is not contingent on it becoming a material entity in the group's resolution plan nor on benefiting from downstreamed internal TLAC, but this would further underpin its core status. We note discussions among EU legislators on strengthening supervision and resolution of entities belonging to third-country groups with operations in the EU. This might require Credit Suisse at some point in the future to combine its operations in the EU under the umbrella of an intermediate parent undertaking (IPU) supervised by the European Central Bank, and could result in a requirement by authorities to downstream internal TLAC to such an IPU.

The long-term rating on CSSSV is one notch above our long-term foreign currency rating on Spain. We consider that the share of Spanish activities in CSSSV's total credit exposure will likely become immaterial once the Spanish firm receives business transferred from the group's U.K. entities. Furthermore, we understand that there will be no other material exposure concentration to any other country rated below CSSSV. Moreover, we think that the group has very strong incentives to support CSSSV through a hypothetical host sovereign default given its critical role for the group and level of integration.

We set the RCRs on CSSSV one notch above our 'A' long-term issuer credit rating, reflecting the typical approach under our RCR framework when the issuer credit rating ranges from 'BBB-' to 'A+', and our projection that the firm's exposure to Spain will become immaterial. It also reflects our jurisdiction assessment of Spain. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Outlook

The positive outlook reflects our outlook on Credit Suisse AG and the other core subsidiaries of the Credit Suisse group. It incorporates our expectation that the group will successfully expand CSSSV into its broader role for the group. It also reflects our baseline scenario that over 2018-2019, CSSSV will increasingly onboard clients from the group's U.K. entities, gradually receive capital from its parent, and continue to play a key role in Credit Suisse's Brexit-related contingency plan. Furthermore, we factor in our understanding that the relative share of Spanish exposure will decline sustainably below 10% of the firm's total exposure.

We could only raise our ratings on CSSSV over the next 18-24 months if we revised upward the GCP on Credit Suisse and, in turn, raised our ratings on its core subsidiaries. An upgrade might hinge on an upgrade of Spain, if contrary to our base case, we no longer project that exposure to Spanish customers or assets were to become immaterial remaining above 10% of CSSSV's total credit exposure.

We could revise the outlook to stable, or lower the ratings, in the next 18-24 months if we no longer considered CSSSV a core subsidiary of Credit Suisse. For example, we could view its role for the group as weakening if customers or assets were not transferred to the extent that we currently expect. Moreover, we could take a negative rating action if we thought that CSSSV would be unable to benefit from support in a bail-in resolution of the group.

Finally, we could revise the outlook on CSSSV to stable if we revise the outlook on Spain to stable should the firm's relative exposure to the sovereign remain more material than we currently anticipate.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Credit Suisse Group AG; July 12, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Spain Completed, June 11, 2018

Ratings List

New Rating

Credit Suisse Securities Sociedad de Valores S.A.

Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.