

PARALLELS TO THE GREENSILL CASE

UBS is caught up in the First Brands bankruptcy

The bankruptcy of the US auto parts supplier is having a significant impact. UBS funds are also affected.

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The bankruptcy of an auto parts supplier has consequences for certain UBS funds.

Source: Keystone

By Holger Alich

on 08.10.2025 - 17:08, updated 3 hours ago

In the US, auto parts supplier First Brands has suffered a billion-dollar bankruptcy. Due to its complex financing structures, the full extent of the debacle is still unclear. According to the bankruptcy filing, First Brands has debts of at least \$10 billion. Now UBS and its fund subsidiary O'Connor have become involved in the case, which also involves supply chain loans. Lawyers are already drawing parallels to Credit Suisse's Greensill case.

According to Bloomberg, UBS has invested approximately \$500 million in First Brands through various funds. These funds involve supply chain financing, i.e., the securitization of customer receivables. It is unclear how much of this money fund investors will get back. On Wednesday, the Financial Times followed up: According to the report, a fund run by UBS's investment subsidiary O'Connor has invested approximately 30 percent of its assets in securities related to First Brands.

UBS subsidiary informs customers

According to the report, O'Connor informed her clients that the "Opportunistic Working Capital Finance" strategy for financing operating assets was invested 9.1 percent in direct securities with First Brands, i.e., in receivables payable by the auto parts supplier. A further 21.4 percent was "indirect"

exposure, i.e., receivables from First Brands' customers. The fund subsidiary specializes in investments in private credit and commodities.

The US investment bank Jefferies is involved on an even larger scale, with \$715 million at stake in First Brands.

If the value of investments is in doubt, fund providers have the option of suspending the redemption of fund units. This would then prevent clients from accessing their money.

But according to financial sources, that's not yet the case. O'Connor fund shares have continued to be redeemed, with the last date being the end of September. It's unclear whether clients will now increasingly rush toward the exit, as the size of UBS's investment in First Brands was only announced at the beginning of October.

The parallels to the Greensill case

The case is interesting because it draws several parallels to the Greensill scandal at the defunct Credit Suisse, as the law firm Lalive writes in a blog post. O'Connor, for example, invested in supply chain financing from First Brands. "These arrangements often allow financing to be held off-balance sheet, making it difficult to accurately assess the true extent of the credit risk," the Lalive lawyers write.

Furthermore, the high proportion of First Brands investments in fund assets cited in the media raises questions about concentration risk, according to Lalive. At Credit Suisse, the supply chain funds were almost exclusively invested in securities supplied by Greensill. And these securities, in turn, related to the claims of a few borrowers, such as steel magnate Gupta.

According to the Financial Times, O'Connor obtained the securitized receivables with First Brands-Konnex through the Raistone platform, which was founded in 2019 by former Greensill employee David Skirzenski. According to the report, one of O'Connor's funds even holds a direct stake in Raistone.

Lawyers believe lawsuits are possible

"The structural similarities to Greensill suggest that investor claims could arise, particularly if questions of disclosure, suitability, or corporate governance arise," write Lalive's lawyers. They have already represented investors in the Greensill case.

UBS said of the case: "This is an industry-wide event with implications for many providers of private credit and working capital solutions. The situation is constantly evolving, and we are currently analyzing the impact on our few affected funds, doing everything we can to protect the interests of our clients."