

Press release

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FINMA is opening the consultation period for the Circular on remuneration systems

FINMA is opening the consultation period for the Circular on remuneration systems, which will enter into force on 1 January 2010. The Circular will have a direct impact on the remuneration systems of the financial institutions concerned. It will aim to ensure that remuneration systems do not provide incentives to take inappropriate risks that could threaten the stability of financial institutions. Financial institutions will have to structure their variable remuneration packages (bonuses) on a sustainable and long-term basis in line with economic profit while taking into account the costs related to all risks entered into. Furthermore, Boards of Directors will have to discharge their duties more carefully. They are responsible for the remuneration policy of the entire company and will have to disclose the company's remuneration policy in a remuneration report. The consultation period for the Circular will run until 14 August 2009.

Inappropriate risks and false incentives can threaten the stability and profitability of a financial institution. In accord with international committees such as the Financial Stability Board and financial market supervisory authorities abroad, FINMA is proposing that, based on the organisational requirements of effective financial market legislation, the remuneration policy of financial institutions be made subject to supervisory regulation. In contrast to comparable international regulations, the Circular will apply not only to large, systemically relevant banks, but to all financial institutions supervised by FINMA.

Remuneration systems should increase employees' risk awareness. FINMA views variable remuneration as the employees' stake in the success of the company and requires that all variable remuneration paid out must actually have been earned by the company over the long term. By contrast, variable remuneration is not paid if a company does not perform well. FINMA defines success based on economic profit. As a result, a company only creates added value if an excess remains after deducting the full risk-adjusted cost of capital. The more sustainable a company's positive performance, the more employees can benefit from variable remuneration.

FINMA requires that the criteria used to award variable remuneration are not based on the short-term performance of individual company units and employees. This is to prevent employees pursuing targets that have little to do with the long-term success of the company or that do not take into account the risks entered into. Deferred remuneration components must be subject to fluctuations in value during the holding period so as to further increase risk awareness and the incentive for sustainable business. If the company performs negatively, deferred remuneration should make up the majority of the variable remuneration, as it is linked to the company's success and only increases in value once the economic situation of the company has improved.

FINMA is to increase market discipline by introducing new transparency and reporting obligations.

The proposed provisions with regard to transparency go beyond specific initiatives on an international level and the current requirements under Swiss law. While the current company and stock market disclosure legislation only requires disclosure of the remuneration received by senior management, FINMA is calling for summary disclosure of the remuneration structure for all employees.

FINMA has opened the public consultation phase and is inviting all supervised entities and other interested parties to submit suggestions to FINMA. **These suggestions must be received by 14 August 2009.** It plans to set out the definitive provisions in September 2009, with the Circular entering into force as of 1 January 2010. This will give financial institutions a transitional period during which they can bring their remuneration systems into line with the new requirements. FINMA expects the remuneration systems of all financial institutions concerned to comply with the principles set out in the Circular from 1 January 2011 onwards.

However, UBS is already having to measure itself against a strict benchmark in 2009. Although the Circular on remuneration systems will not enter into force until the start of 2010, UBS must comply with the principles contained in the Circular during the 2009 financial year. This stems from the agreement between the Federal Department of Finance, the Swiss National Bank and UBS as part of the package of measures approved in autumn 2008. FINMA will monitor UBS's implementation of these measures.

You will find all the documents on our webpage <http://www.finma.ch/e/aktuell/pages/mm-rs-verguetungssysteme-20090603.aspx>.

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