



Eidgenössische Bankenkommission
Commission fédérale des banques
Commissione federale delle banche
Swiss Federal Banking Commission

SFBC Strategy 2004 - 2008

Summary

By decision of the SFBC, 28 October 2004



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1. Mission

1. The SFBC's supervisory work is intended to protect creditors and investors, promote the smooth functioning of the financial markets and safeguard the reputation of Switzerland as a financial centre.
2. In all of its activities, the SFBC takes due account of international developments and the continuing appeal of Switzerland as a financial centre.
3. The SFBC's statutory role is to supervise banks, securities dealers, investment funds, stock exchanges and some parts of the securities markets in Switzerland.
4. The SFBC performs its role as a federal authority autonomously and independently of Federal Council directives in accordance with the provisions of the supervisory laws.
5. The SFBC conducts its supervisory activity close to the market and with a focus on risks. It is helped in its work by analysis tools that are constantly being updated and developed.
6. The SFBC regulates wherever it has to but no more than it has to. It takes a differentiated approach and takes account of the need of smaller institutions for simple solutions.
7. The SFBC involves the affected parties in regulation and takes due account of the burden of implementation. It regulates in a transparent manner and encourages self-regulation.
8. The SFBC is committed to sensible, market-oriented, coordinated and proportionately applied regulation of the financial markets both within Swiss legislation and at the international level.
9. The SFBC punishes infringements of supervisory rules decisively, fairly and always with an eye on the supervisory goals.
10. In all of its activities, the SFBC sets key points of focus and priorities and always examines whether an action is necessary, appropriate and reasonable in terms of costs and efforts.
11. The SFBC nurtures an open, trusting culture of exchanges and at all levels encourages an ability to accept criticism and learn from mistakes.
12. In crises, the SFBC reacts in a considered, timely and decisive manner. It makes the necessary resources available immediately and temporarily adapts its organization to the circumstances.
13. The SFBC communicates continuously and as scheduled. It remains silent where a protected interest in confidentiality so dictates, and explains the reasons for its silence.



2. General developments

The economic, legal, political and international conditions relevant to the SFBC change very quickly. In addition to efforts to create integrated financial market supervision, the SFBC believes the following developments are of particular strategic importance and has thus planned its *responses* accordingly:

Expansion of supervisory duties

At both the international and national level, politicians are leaning towards expanding the supervision of financial markets. The density of regulation and supervision is increasing. The EU has moved in this direction with the implementation of its action plan, which has emphasized existing differences in some areas of regulation. This applies to both the supervision of institutions (e.g. asset management) and the supervision of markets (e.g. supervision of issuers, rules on abuses of the market). Prudent supervisory authorities are increasingly taking on consumer protection responsibilities. Switzerland is (in many cases justifiably) more circumspect, but it will not be able to – and does not particularly want to – escape this trend entirely (e.g. supervision of the auditors of public companies).

The SFBC is committed to a sober assessment of the question of whether new responsibilities are necessary and practical. If it is given new responsibilities, it will insist on realistic arrangements and adequate resources while avoiding any bureaucratization of the SFBC. It is preparing itself in terms of organization and personnel for likely new responsibilities.

Greater and excessive expectations of the supervisory authority

The expectations placed on the supervisory authority are already high and are set to rise further, as is belief in the power – or even omnipotence – of the state. The media, politicians, supervised institutions and those being protected by supervision are showing less and less tolerance for mistakes and uncertainty. At the same time, there is an increasing readiness to hold the state liable for perceived supervisory failures or to bring actions against regulatory bodies and their staff. The media tends to take a personalized and emotional approach to actual and suspected financial scandals.

The SFBC itself makes the highest possible demands on the professionalism of its organization, its members and its personnel. It continues to develop its risk-oriented approach to supervision in collaboration with the supervised institutions and auditing firms and ensures that they are aware of what it is doing. It clearly sets out the capabilities, but also the limits of supervision. It attaches the greatest importance to clean and fair processes and is committed to the statutory limitation on liability required by international standards. It reacts calmly and in a considered fashion to accusations of scandal, and communicates continuously and in accordance with a predictable schedule.



Increasing awareness of the burden of regulation and supervision

The burden of regulation and supervision remains a central issue for supervised institutions. They are concerned about, among other things, one-off implementation costs and ongoing compliance costs, as well as about possible opportunity costs in the form of lost or reduced business opportunities. However, the regulator's room for manoeuvre is often limited by international minimum standards that have to be implemented, albeit with a sense of proportion, for the good of the financial centre. The proliferation of such standards is unlikely to abate.

Regulatory projects led by the SFBC must be guided by medium-term planning that is coordinated with the other parties involved and that takes due account of cost/benefit considerations. The applicable regulations are reviewed periodically to check that they are still required. The SFBC creates the organizational conditions that facilitate an even more effective application of the "pay-per-use" principle in the financing of its activities. By increasing productivity, planning waivers and establishing focuses and priorities, it strives to create the leeway required to cope with new demands.



3. Strategic points of focus 2004 - 2008

The SFBC has established strategic points of focus for the 2004 – 2008 period, the realization of which depends to some extent on political conditions. The following points of focus concern various areas within the broad spectrum of the SFBC's activity: monitoring, regulation and implementation of regulation, enforcement and communication.

Risk-oriented supervision, early warning system and optimization of the dual supervisory system

Owing to the greater demands and expectations placed on supervision, as well as the greater consciousness of the burden of supervision and the fact that resources are limited, a differentiated approach to the supervision of smaller and medium-sized banks is required that focuses on the different supervisory risks. Similarly it has become necessary to develop a system that allows the use of statistical economic data and multi-year data series as early warning indicators in banking supervision. The tried-and-tested dual supervisory system needs to be optimized through quality controls and by requiring the audit firms to fulfil modern standards.

Strengthening supervision of the major banks

In 1997 the SFBC decided to build up additional resources to allow more in-depth supervision of the major banks. This deepening of supervision had become essential from the international perspective and it now has to be taken further by tightening specific areas of on-site reviews, crisis management and risk management.

Implementation of the planned Swiss Federal Law on Collective Capital Investments

The planned "Federal Law on Collective Capital Investments" is set to make Switzerland's financial market more attractive for providers and investors. The SFBC is therefore supporting the plan, accelerating it as much as it can and working out the necessary implementing provisions. According to the current drafts, the law will extend the SFBC's supervisory remit to new categories of institutions such as investment companies, SICAVs and limited partnerships for collective capital investment. The drafts also contemplate new obligations to control such matters as advertising for structured fund-like financial instruments. These new jobs will require additional personnel as well as extra training for existing staff.



Implementation of Basel II while maintaining equity capital levels

Implementation of the equity capital standards for international banks approved by the Basel Committee in summer 2004 represents the largest ongoing regulation project being led by the SFBC. The following guidelines apply:

- Safeguard the security and stability of the banking system by maintaining Swiss equity capital levels.
- Offer differentiated regulation to suit individual banks' size, risks and business activity (complexity, international/national focus).
- Exacting standards for the approval of the internal bank procedures required by Basel II for identifying credit risks (IRB) and operational risks (AMA).
- No discrimination with regard to mortgage business and SME funding.
- Intensive involvement of directly affected banks in the implementation and regulation process.

Transparent regulation planning and principles involving the regulated institutions and safeguarding the appeal of Switzerland as a financial centre

The number and density of regulatory projects is still modest by international comparison, but it is rising and there is a greater awareness of the supervisory burden. Consequently the regulation process has to be transparent and must include the regulated institutions early on and permanently. This process must be based on principles that ensure supervisory regulation in line with international standards, but that also ensure that the supervisory burden remains proportionate and reasonable.

Efficiency and prioritization for enforcement proceedings in the supervision of markets and institutions

The proceedings used to enforce the relevant law when supervising institutions and securities markets can be very time/resources-consuming and expensive. It is therefore important to define clear goals, set priorities, concentrate efforts on the major proceedings and accelerate these as much as possible. Proceedings should thus be avoided in insignificant or less important cases. All proceedings must be conducted fairly but firmly, and they must adhere strictly to the established principles.

Encouraging institutional independence while acknowledging accountability

The SFBC is already independent from federal directives, and is striving for a high degree of institutional, administrative and resource-related autonomy in line with international standards – whether within the bounds of the planned law on financial market supervision, or with regard to existing responsibilities outside FINMA. It acknowledges that accountability to the political authorities and the public is the price for its independence.



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More effective communication

If the reputation and credibility of the SFBC is to be maintained and increased, it needs to present a consistent and purposeful front to the institutions it supervises, to official bodies and opinion leaders, as well as to the public in Switzerland and abroad. These groups should be able to appreciate the SFBC's supervisory work at times other than during actual or alleged scandals. There will then be additional confidence in the SFBC if a crisis does occur. The SFBC communicates actively to internal and external audiences whenever its activities require so, and communicates passively in response to queries. Communications are group-oriented, prompt, objective and as transparent as possible. Active monitoring is used to identify and tackle crises as early as possible.



4. Institutional governance

All SFBC's important decisions are taken by its Commission on the basis of submissions made by its Secretariat, which is headed by a directorate. In terms of checks and balances, this separation of functions is a very important way of ensuring that decisions are balanced and of high quality, and that they take into account the various possible points of view. This is true of the SFBC today, and in the view of the SFBC it should also be true of any future FINMA. The following elements are central to cooperation between the SFBC's Commission and Secretariat, as well as to effective management of the SFBC and the maintenance of high professional standards.

SFBC's decisions on strategy and fundamental principles

The SFBC's Commission decides on questions of strategic or fundamental importance concerning all SFBC's responsibilities. The experience and specialist expertise of the SFBC's members, coupled with their distance from day-to-day operational business, should ensure that decisions reflect a careful weighing of all material aspects. The individual Commission members do not head any of the SFBC's divisions or departments, which means they are free to make decisions with collective responsibility and a sole focus on the overall picture.

Secretariat's responsibility

The Secretariat handles the operational management of the SFBC, prepares materials for the Commission's strategic decision-making and implements the decisions taken. The Commission ensures that the Secretariat has room for manoeuvre in operational matters and in preparing cases. In selected strategic matters specialized members of the Commission bring in their expertise to help preparing the decision-making. The Commission's ideas can thus be integrated as early on as possible. When necessary, the specialized members can prompt the Commission to discuss strategic changes at an early stage.

Open, critical, trust-based culture of debate

An open culture of debate based on trust enables people to express dissenting views during the opinion-forming process, which increases the quality of decisions. The SFBC delegates tasks, competencies and responsibilities wherever possible. Mistakes are examined openly rather than covered up, because lessons can be learned from them.



Open consideration of alternatives and disputed points

At all levels, decisions and reports include references to and comments on alternative courses of action. Delicate and disputed points are discussed openly. This means that decisions can be made after due consideration to the main points of view.

Clear regulation and handling of conflict of interests

The hint of a lack of impartiality leads to the withdrawal of a Commission member or Secretariat employee from a particular case. Where there is any doubt, the SFBC will err on the side of caution and withdraw the person concerned. This person must raise the issue of a possible conflict of interest himself or accept questions on this issue. Once withdrawn, people may not be involved in any way with the handling of the case concerned or with decisions made about it. Neither are they informed about it.

Regular reporting on the activities of the business areas

The SFBC's Commission delegates most – or in the case of supervisory areas – all operational responsibilities and decisions to the Secretariat. This necessitates regular reporting by the individual business areas to the SFBC's Commission on the fulfilment of their duties.

Guidelines and controlling progress in cases and projects

The SFBC's size means that it is necessary to check the progress of all important dossiers. Depending on how significant the case is, this can happen at various levels (Commission, Directorate, Business Area).

Separation of functions within the SFBC's Secretariat

Permanent supervision of institutions is only possible if there is a trusting relationship between the supervised institutions and the SFBC. With permanent contact, however, there comes a risk of excessive closeness. Consequently, the SFBC ensures that staff are rotated around different mandates. Except in the case of market supervision in the Exchanges/Markets area, there is also functional separation between enforcement and supervision.