Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

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Financial market crisis and financial market supervision

Key points

The scale and depth of the global financial market crisis took everyone by surprise: banks, financial analysts, rating agents, auditors, investors, central banks and even supervisors. None of those involved recognised in time the origins of the crisis or the full extent of the dangers it posed. In this report, FINMA subjects the decisions and actions taken by the SFBC before and during the crisis to close scrutiny and draws some lessons.

Economic imbalances, higher debt levels and opaque securitisations led to a global crisis with its catalyst in the US subprime mortgage market. Forced sales and a loss of confidence in products with little transparency caused key securities markets to dry up, triggering sharp price falls. Many banks all over the world had to take large write-downs, raising the need for capital and liquidity in the sector.

Swiss financial institutions, especially the major banks and insurance companies active in the capital markets, were directly affected by the crisis and in some cases suffered large losses. As the crisis spills over into the real economy we can expect all banks and insurance companies in Switzerland to be affected by the downturn to some degree.

Both, before and during the crisis, the SFBC paid particular attention to the two major banks, especially UBS, devoting as much staff resources as possible, including on its highest level. With hindsight it is possible, however, to identify weaknesses both in identifying risks and in the implementation of measures. The fact that the authorities were prepared to cope with a crisis at one of the major banks, helped in dealing with the situation. The good cooperation between the authorities and government representatives was crucial. This allowed the measures needed to strengthen the financial system in October 2008 to be introduced and rolled out in a prompt and focused manner.

The SFBC quickly learned its lesson from the crisis and implemented remedial actions. The capital adequacy regime for the major banks, already well above international standards in 2007 and 2008 because of the "Swiss finish", was tightened significantly once again. Additional rules were put in place to overcome the liquidity crisis. A circular on incentive schemes will be approved this year and come into effect on 1 January 2010. Moreover, it has been widely identified as a cause that the Basel II standards have fundamental weaknesses, such as insufficient capital backing for proprietary trading positions and the pro-cyclicality of the market risk models applied. The Basel Committee is currently

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working intensely to come up with improvements. As a member of the respective working groups, FINMA is making an active contribution to these efforts.

The reason why FINMA was set up as an integrated financial market regulator had nothing to do with the crisis. However, the present structure is an advantage when it comes to the demanding job of dealing with dynamic and increasingly complex financial markets. The way FINMA is organised means that it enjoys greater independence than the predecessor authorities. Its ability to act is closely related to the degree of self-determination FINMA enjoys and to its capacity to react to changes as quickly and autonomously as possible. Particularly essential to the quality of supervision are appropriate staff and financial resources and their discretionary deployment. FINMA is expanding its supervisory skills in targeted areas. Experience in senior finance and risk management positions is increasingly in demand.

FINMA’s strategic objectives for the period 2010-2012, to be published shortly after their pending approval by the Federal Council, will take account of the lessons learned during the crisis. As a result of the experiences made, FINMA aims to increase banks’ overall resistance to future crisis. Emphasis will be put on tighter capital adequacy and liquidity requirements, the interaction between supervised institutions and the risks inherent in their reciprocal dependencies. FINMA will focus its supervisory efforts even more closely in line with risk categorisation, further boosting efficiency and effectiveness.