

Press release

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Contact:
Tobias Lux, Media Spokesman
Tel. +41 (0)31 327 91 71
tobias.lux@finma.ch

FINMA redefines corporate governance guidelines for banks

The Swiss Financial Market Supervisory Authority FINMA is consolidating the supervisory requirements relating to corporate governance, internal control systems and risk management for banks. This consolidation takes the form of a circular incorporating the most recent findings from the financial crisis and the revised international standards.

FINMA has revised its corporate governance requirements for banks by consolidating the provisions of circular 2008/24 ("Supervision and internal control - banks"), the associated FAQ, and requirements defined in other circulars into a new circular 2017/1 entitled "Corporate governance – banks". FINMA has also revised circulars 2008/21 ("Operational risks - banks") and 2010/1 ("Remuneration schemes") and is now publishing the definitive circulars, which will enter into force on 1 July 2017.

Principles-based regulation

FINMA is streamlining the regulatory framework by defining the revised requirements in terms of underlying principles and dispensing with detailed application guidelines. The circular also consistently implements the principle of proportionality, leaving institutions free to implement the requirements in a way that takes account of their differing business models and of the particular risks associated with them.

Modern corporate governance requirements

The new "Corporate governance – banks" circular underlines the importance of modern corporate governance and appropriate and effective risk management. The circular sets minimum requirements not only for the composition of boards and the qualifications of their members but also for the organisation of internal control systems at banks. The revised "Operational risks" circular introduces new guidelines on managing IT and cyber risks and incorporates the principles from the FINMA position paper "Legal and reputational risks in cross-border financial services". The "Remuneration schemes" circular must now only be applied in full by the biggest banks and insurance companies and explicitly prohibits hedging

transactions. It remains, however, a key guideline for all banks and insurance companies.

FINMA responds to issues raised by the industry

In view of the importance of this circular, FINMA conducted a wide-ranging [consultation exercise](#). While there was general acceptance of the proposal to consolidate and update the old regulations, participating institutions also proposed amendments. FINMA accepted a number of key recommendations from the consultation. These included setting out the division of responsibilities between the board of directors and the executive board in greater detail and reducing the diversity requirements within boards of directors. In addition, smaller banks (supervisory category 3) will be allowed in future to form a combined audit and risk committee instead of being required to have two separate committees. FINMA has also granted exceptions to the rule that a majority of committee members must be independent. The new circular also allows the chief risk officer to be responsible for other non-profit-generating functions (e.g. compliance). Finally, FINMA has decided not to introduce a clawback clause in the "Remuneration schemes" circular.

Corporate governance disclosure provisions

All corporate governance requirements relating to disclosure will be moved to circular 2016/1 "Offenlegung - Banken" which is currently under review. FINMA will bring all the requirements relating to disclosure in the banking sector together in this circular. Publication of the revised "Offenlegung - Banken" circular is scheduled for December 2016.