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Regulation must be intelligently designed

Ladies and gentlemen

I have been a Board member for eight months now and Chairman for about one hundred days. So you could say I have been shown the ropes. This initial period at FINMA I have spent meeting many people both in and outside the organisation, reading widely, asking several questions and paying particular attention to the answers I was given. Financial market supervision is no trivial matter – quite the contrary in fact. During my time as an insolvency expert and many years working as a judge, handling complex issues and the resulting challenges were part of a day's work. Ultimately, decision-making is what counts, even if some of those decisions will be unpopular. A judge cannot please everyone all the time, nor can a supervisory authority. It is vital in both these roles to make carefully considered decisions that can be justified. As in the past, I feel confident in my ability to continue to do so as the new Chairman of FINMA's Board of Directors.

FINMA is well positioned

So, what impression have I gained of FINMA? I see an organisation that performs solid supervisory work and functions well. FINMA is a lean organisation compared to its foreign counterparts. Nevertheless, the work gets done, even if FINMA uses its resources carefully. Issues in areas posing increased risks to financial market clients and financial market operations are those which we examine in detail and on which we act. FINMA is making a difference through its ongoing supervision and enforcement activities. It is sending the right signals to market participants.

FINMA has the expertise to fulfil its mandate independently, which is very important. In addition, it is well regarded because it is sufficiently detached both from the business sector and from political influences. At an international level, FINMA is recognised as a partner committed to preserving adequate international supervisory standards. I regard it important to maintain the same high standards worldwide. Through our work on international committees, FINMA makes a major contribution to the issues concerning the Swiss financial centre.

Also, FINMA employees are motivated and well qualified, so the required expertise is at hand. There is also a palpable level of motivation within the organisation to uphold public interests. At the same time, the work of a supervisory institution is no small matter. FINMA employees frequently experience resistance when carrying out their supervisory activities and have to deal with challenging situations.

In all, FINMA is a relatively young entity. Nonetheless, it is also a mature, stable organisation with a clearly defined remit. It is therefore not in need of reform.

Throughout my career, I have always stayed true to these three principles and will continue to do so: pragmatism, proportionality and transparency. Those principles are not just words, rather they pose a recurring challenge in our everyday work. And that is why I will keep them in focus.

My aim as Chairman is primarily to preserve and advance FINMA's strengths. The way to do that – both in the Board of Directors and vis-à-vis the Executive Board – is to be prepared to ask difficult questions and carefully review proposals for improvement. Ultimately, we want FINMA to keep fulfilling its protective role in a credible, successful, targeted and predictable manner.

Regulation should not be viewed negatively

Currently, there is a lot of debate about striking the right balance of regulation. Indeed, regulation is one of the statutory duties of FINMA's Board of Directors, so I would like to comment on that in the second part of my speech.

First of all, I would like to point out that FINMA is primarily a supervisory and not a regulatory authority. This is often forgotten about. When we regulate, we are acting expressly on the legislator's behalf in no less than 85% of the cases we deal with. Before we regulate anything, we also hold a consultation with the relevant market participants and we take their concerns seriously.

But nothing works without rules. Such a complex and fragile structure as the financial centre needs clear rules and guidelines. Let us not forget that we are talking about companies that handle people's savings and insurance assets. It is also important to consistently analyse current regulation and, where necessary, improve and refine it. Last year, we adjusted a number of insurance circulars and reduced the total volume by about a third.

I would disagree though with those who regard regulation negatively. Only a regulated financial centre will earn the confidence of investors; only a regulated financial centre will remain operational; and only a regulated financial centre will remain competitive on the international stage. Granted there will be disputes about the right level of regulation in certain cases. However, I believe that in Switzerland we have been moving in the right direction over the past few years. Switzerland has intelligently designed financial market regulation. This intelligence manifests itself in three ways: firstly, the regulatory requirements in terms of financial stability are high; secondly, the other provisions are very much principle-based. That means we formulate the requirements but leave it up to the institutions, wherever possible, to decide themselves exactly how to implement the requirements. Thirdly, in most instances we have been successful in gaining equal recognition from the European Union of our financial market regulation.

Strong capital requirements are indispensable for Switzerland

There can be no shortcuts in financial stability requirements or, to be more specific, capital requirements for banks, particularly the systemically important ones, and insurer solvency. First and foremost, we have to protect customers' claims. Furthermore, corporate stability is essential to a strong financial centre in a small market economy. A strong capital base provides an important foundation on which the Swiss financial centre can remain the world's biggest asset management location in the future.

Strong capitalisation reduces susceptibility to crises, increases confidence in financial institutions and thus contributes to the financial centre's stability. That is why our answer must be a resounding no to those who call for a lowering of our security level.

Principle-based approach has advantages

The second notable quality of Swiss regulation is its principle-based approach. Admittedly, it does not preclude the emergence of highly detailed regulation in any given area. However, Switzerland still has a very liberal and principle-based regulatory regime and anyone who says otherwise needs to look at the regulations in other countries. Take the Dodd-Frank Act for example: that act alone plus its implementing provisions in US banking regulation come to more than two thousand pages. The Dodd-Frank Act is longer than all the Swiss financial market regulation for banks, stock exchanges, insurers and combating money laundering – and that includes all the laws, ordinances and circulars!

Intelligently designed regulation is more than a validation of checklists. A principle-based approach to financial sector regulation brings some major benefits, which are worth defending: it allows a certain amount of scope for interpretation so there is room to experiment with new ideas without having to constantly amend the regulations. It is essential to have a clearly formulated and attainable regulatory goal. Remarkably, however, principle-based regulation is being questioned from two quarters. To my surprise, the supervised institutions themselves have been less than enthusiastic. Some complain about the density of regulation and use such terms as "regulation tsunami" or "regulatory Moloch" to describe FINMA. Yet, during consultations we often hear them ask for more detailed rules. International committees and authorities also question the principle-based approach during negotiations with Switzerland about equivalence of regulation. Principle-based regulation is not really popular outside Switzerland. I have already mentioned the USA, and the EU is no different. There is a steady trend towards more detailed regulation. Nevertheless, last year we successfully completed two equivalence procedures: one for insurance supervision and one for supervision of central counterparties. This proves that our philosophy on regulation can find acceptance abroad.

Enabling innovation

Another reason for designing regulation intelligently is that it enables innovation. In recent months, FINMA has laid important foundations in the area of FinTech. We reviewed our own regulation to see if it contained any unnecessary obstacles to the provision of digital financial services. We also acted

quickly and enabled video and online identification for client onboarding. In addition, we also presented proposals for new types of licence for innovative business models and technologies.

Intelligent regulation is an ongoing challenge

FINMA's Board of Directors bases adjustments to ordinances and circulars on simple principles: we aim to formulate the rules in a pragmatic, principle-based and applied way. Intelligently designed regulation – by the legislator or FINMA – does not overlook the interests of those it is supposed to protect. Nor does it create any unnecessary hurdles to economic competitiveness and future development. It is a genuine and ongoing challenge, which we readily accept.

Thank you for your attention.