

**Centro Studi Villa Negroni, 9 October 2025**

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## Swiss financial market supervision against the backdrop of a changing risk landscape

Ladies and gentlemen

Our annual meeting here at Centro Studi Villa Negroni is always a highlight for me, and it is clear from the turnout here today that you also value this dialogue.

One year ago, I stood here and talked about risks and financial market supervision – and I would like to build on that topic today. In a nutshell, the mandate of FINMA is to protect creditors, investors and policy holders and to ensure the effective functioning of financial markets. This forms the main focus of FINMA's work. I would like to illustrate for you today how supervision needs to continuously adapt to changing conditions to help ensure the resilience of the financial system.

The risk landscape has intensified since our last meeting, both in the financial and non-financial areas. As a result of trade conflicts, for example, the appreciation pressure on the Swiss franc and its volatility have increased. Government debt is rising in a number of major countries. The geopolitical situation remains tense. Sanctions also continue to pose a risk. The risks associated with the sanctions on Russia – for example, due to existing or potential additional secondary sanctions – are still high. The situation also remains challenging with regard to sanctions on goods. Furthermore, client protection is a particular priority in this environment. To achieve this, rules of conduct – for example, in the distribution of higher risk financial products – must be closely observed. Clients' knowledge, experience and requirements must also be considered.

When it comes to digital IT risks, we are observing increasing complexity of systems at financial institutions. Risks associated with cyberattacks and outsourcing have also risen. Many banks are now outsourcing central IT services to cloud providers. Insurance companies are doing the same, for example, in the area of investments. Increasingly, they are reliant on the services of a small number of third-party providers, making them more vulnerable to cyberattacks.

In this increasingly challenging risk environment, it is all the more important that financial institutions are well-governed and managed. The resulting increase in the resilience of financial institutions ensures that they can fulfil their important function for the economy as a whole. This is particularly true for the Swiss financial sector, which has a greater significance for the medium-sized, open Swiss economy compared to other countries of the same size. A few figures illustrate this: The financial sector – which includes banks, insurance companies and other services – accounts for just over 9% of gross value added in Switzerland.<sup>1</sup> In the canton of Ticino, it accounted for around 7% in recent years.<sup>2</sup> This is particularly true for the asset management sector, which plays a vital role in the economy – not just in Switzerland as a whole, but also in the canton of Ticino.<sup>3</sup> Switzerland remains highly competitive and is a world leader in the cross-border wealth management business – thanks in particular to our good framework of economic, monetary and fiscal policy as well as legal certainty. FINMA is very supportive of bilateral and multilateral agreements as part of its cross-border cooperation with partner authorities. The prerequisite for such agreements is that standards in the corresponding jurisdictions are at least equivalent, for example in the area of customer protection.

In this heightened risk landscape, it is important that we continue to safeguard the resilience of the Swiss financial sector. Strong, robust regulation and supervision play a critical role in promoting such necessary resilience.

And when it comes to resilience, it is no different than for people themselves: true resilience comes from within. Responsibility for remaining resilient lies primarily with the institutions themselves. In particular, this is achieved through a good risk culture, sound governance and sustainable business models. The supervisory authority generally stays on the sidelines. It only intervenes if it becomes apparent that financial institutions are not adequately fulfilling their individual governance and risk management responsibilities. It does so in a targeted, effective, proportionate and technology-neutral manner.

Before I go into more detail about what I mean by strong, robust regulation and supervision, I would like to emphasise that responsibility for developing regulations lies with the legislator. It decides on the framework within which financial market players should operate and weighs up various considerations and goals. Our role as a supervisory authority is a different one: we remain neutral on political matters. But in line with our mandate – protecting clients and the financial markets' ability to function – we draw attention to the risks and their potential consequences.

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<sup>1</sup> BAK study 2024: Economic Impact of the Swiss Financial Sector.

<sup>2</sup> Gross value added (GVA) by canton and industries, Federal Statistical Office, "Financial service activities and insurance", published on 28.10.2024.

<sup>3</sup> Ufficio di statistica del Cantone Ticino.

In my view, the following cornerstones constitute the foundation of a robust regulatory and supervisory edifice: Firstly, a strong supervisory toolkit for early intervention. Secondly, adequate capital and liquidity buffers. Thirdly, in the event that a systemic financial institution nevertheless gets into difficulties, it needs to have prepared effective recovery and resolution plans. Fourthly, these precautions must be accompanied by contingent liquidity assistance, which includes liquidity facilities from the national bank and in the case of systemic institutions a public liquidity backstop with adequate preparation. As a last resort, financial institutions must be able to exit the market in an orderly fashion, without undue negative impact on clients, the financial markets or taxpayers.

The main focus of the strong supervisory toolkit is on effective early intervention powers. In early intervention, the supervisory authority takes preventive action to address the cause of a developing problem in the going concern phase, that is, the phase in which business is still running as usual. Stabilisation, on the other hand, responds to the symptoms of a problem much later – closer to the so-called point of non-viability. So, for example, if CDS spreads jump sharply or liquidity flows out, we are no longer talking about early intervention but are already in a stabilisation phase. The early intervention measures available to FINMA should allow it to intervene in a targeted and effective manner: for example, addressing weaknesses in corporate governance and remuneration systems, measures to strengthen capital and liquidity resources, restrictions on business activities that are not managed or controlled appropriately, or requiring improvements to recovery and resolution plans. It is important that the measures taken in each specific case are always proportionate. Specifically, they must be necessary and appropriate to achieve the regulatory objectives, and there must be a reasonable relationship between the purpose and the effect. In addition, the instrument of early intervention must always be used in a risk-based manner.

When it comes to the second point, capital and liquidity, solid minimum requirements – including deduction of foreign participations of banks – are needed, something I have discussed at length in previous remarks. FINMA also requires clear supervisory powers to impose Pillar 2 buffers where forward-looking stress testing shows capital shortfalls, as well as the use of qualitative adjustment factors to address weaknesses in the underlying measurement of risks, as appropriate.

Regarding the third cornerstone, the preparation of recovery and resolution plans, I would like to emphasise that we need legislative changes that provide more optionality in the execution of resolution strategies – (1) restructuring and continuation of the bank, (2) solvent market exit of the bank and (3) sale of the bank (or of parts thereof). FINMA must be able to take decisive action and respond in an appropriate manner. The preparations for such actions must be made in normal business periods. FINMA needs a robust set of tools to be able to effectively address inadequate crisis

preparations. This includes the power to enforce adjustments to the structure and business model as well as surcharges on capital requirements in the event of inadequate crisis preparations by banks. Here too, it is important that the measures in each case are always proportionate.

On the fourth point, liquidity during crises, it is important that banks in the recovery or resolution phase can be supported by the necessary liquidity assistance under appropriate conditions. To be clear: banks are primarily responsible for maintaining sufficient liquidity buffers on a going concern basis, even for times of crisis. They are the first line of defence. The second line of defence consists of recourse to emergency liquidity assistance granted by the central bank under appropriate conditions. The third line of defence takes the form of a Public Liquidity Backstop, which must be available to accompany all resolution options of systemically significant institutions.

For the house to be truly resilient to all weather conditions, all four of these cornerstones must be in place. The planned reforms to the TBTF rules and regulations deliver these key elements as part of a comprehensive package. From FINMA's perspective, they should be implemented as quickly as possible.

Independently of these proposals for regulatory reform, FINMA is continuously developing its supervision based on lessons learned in Switzerland and internationally. FINMA is strengthening its supervisory methods, analyses and practices. These include a particular focus on the supervision of risk culture, governance, business model analysis, and the further development of recovery and resolution plans. Through the recent organisational changes – such as the creation of a division for integrated risk expertise and the bringing together of the supervisory areas for markets and asset management – we are promoting intensified, efficient and direct supervision, including through more of our own on-site supervisory reviews. This will make us even more effective and our actions more targeted.

Let me conclude by stating that today's risk landscape is particularly complex and accentuated. In this environment and following the events in March 2023, as a medium-sized, open economy with a very significant financial sector, Switzerland is particularly exposed. The answer is to ensure the resilience of the financial sector through strong risk culture and governance, appropriate regulation and strong supervision. The proposed TBTF reforms go a long way towards accomplishing these goals and lay the foundation for the resilience of the Swiss financial sector and economy over the long run.

FINMA always uses its powers to apply and enforce regulation in accordance with the principles of appropriateness, proportionality, technological neutrality and the absence of arbitrariness. In practice, this also means that the smaller the institution and the lower the risks, the greater the degree of

regulatory relief accorded. FINMA also regularly identifies possible effectiveness and efficiency gains. It implements these improvements and maintains an ongoing dialogue with the supervised institutions. At the same time, however, within its remit to protect creditors, investors and policyholders, there are areas where comparable expectations should be met. Rules on combating money laundering, risk management in cross-border business or the protection of clients must be complied with by all institutions.

At the end of the day, effective regulation and supervision must ensure that the supervised institutions are resilient and well-equipped for difficult times. This builds trust, protects clients and keeps the system stable. In turn, this strengthens prosperity, market integrity, and the reputation and competitiveness of the Swiss financial centre over the long term.

Thank you for your attention.