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Chair of the Board of Directors

A new phase in FINMA's integration process

Ladies and Gentlemen,

After more than 80 days in my new position, the time has come for me to break my silence.

My transition from being a member of the Board of Directors to the higher profile position of Chair proceeded smoothly, thanks to the support of my colleagues and the staff of FINMA, and I should like to take this opportunity to thank them publicly.

In fact, I was not entering uncharted territory. The change was undoubtedly considerable, but I was already familiar with both FINMA's areas of activity and the way in which it operates. My task was also made easier by the fact that the external situation has been somewhat calmer for FINMA since the start of 2011.

Today I would like to use this rite of passage – the annual media conference and presentation of a report – to draw your attention to a number of key areas of FINMA's work during 2010 and 2011. These must be seen in the more general context of the efforts being made to achieve the authority's objectives.

The aim of creating FINMA was to strengthen the supervision of the financial markets. It was felt that the establishment of a single authority would lead to new synergies and a greater depth of specialist knowledge. At the heart of the new model were the twin goals of more effective supervision and more coherent regulation.

Two years on, how have things progressed?

FINMA was established at a particularly difficult time. Nevertheless, the first benefits of integration are already making themselves felt, notably in the form of improved internal collaboration and the creation of a broader network of expertise. These effects can be seen in both supervision and regulation. FINMA must now devote its efforts to demonstrating that the combined authority is more than merely the sum of its formerly separate parts, and that it is actually delivering genuine added value. This process will continue in the years to come, and will guide our every action. 2010 was the second year of FINMA's existence and an opportunity for us to show determination and responsibility in implementing the strategic goals adopted in 2009 over a period of three years. Those goals encompass the broad range of the authority's competencies and set out the general direction of our external activities as well as the framework of our internal organisation. A number of stages along that path have already been completed, or are well on the way to being so.

One of our first priorities was to implement a more systematic approach to supervision that focuses largely on the risks involved in all areas. We are working to identify risks at an earlier stage, both within institutions and in the relationships between them, and in terms of their effects on the "real" economy.

FINMA's legal mandate endows it with considerable room for manoeuvre and a substantial degree of independence in its chosen courses of action. Nevertheless, the economic, political and regulatory environment within which FINMA operates is constantly changing, and that inevitably has an impact on our priorities and our work. Allow me to offer you a few examples:

- Interest-rate risk affects both the central banks and the institutions under our supervision, be they banks or insurance companies – an issue that Mr Raaflaub will be addressing in greater detail; we are unable to escape the effects of trends in real-estate prices; the volatility of the markets, the debt levels of neighbouring countries, and developments on the commodities markets present new challenges for the supervisory authority and for various legislatures.
- International regulation is also evolving, though the enthusiasm for change in certain quarters is beginning to wane and competition is re-emerging between financial sectors. In any event, we are obliged to react, to anticipate trends, but also to use the latitude that we have in order to define a Swiss solution, which may not necessarily correspond to the concept of the "Swiss finish", but which, nevertheless, takes account of our specific characteristics and enables us to achieve the best possible compromise between security and competitiveness.
- The issue of cross-border business and the associated risks is, and will remain, a matter of concern for FINMA and for the institutions we supervise, as well as for the authorities in Switzerland and abroad.

At FINMA, we have noted that while the general goals we have set ourselves remain relevant, the manner of their implementation is becoming increasingly important; we have gone beyond the stage of

defining approaches and are now focusing on more direct action. We need to demonstrate in practice, by working together, that the creation of a combined authority as envisaged by the legislature brings with it not just increased effectiveness, but also a qualitative improvement in supervision and, in consequence, in regulation. It is important to remember that for FINMA, regulation is not an end in itself but rather one of the tools used to establish and organise a supervisory regime that achieves our statutory goals, namely the protection of individuals (creditors, investors and policy holders) and the proper functioning of the financial markets. Further, this protective function must contribute to the stability of the system. The improvement in the reputation and competitiveness of the financial sector that is often cited as a reason for opposing all forms of regulation in fact derives “naturally” from effective supervision and appropriate regulation.

FINMA’s activities in 2010, and their continuation in 2011, are a concrete reflection of this often delicate task and of the desire to strike the best possible balance between interests that often diverge.

I would like to comment on two points in greater detail:

Since it was established, FINMA has pursued the goal of reducing systemic risks and complexity. It played an active role in the work of the “too big to fail” (TBTF) Commission of Experts. The Commission, in which the large banking groups in particular were represented, ultimately came up with a unanimous proposal. The draft law that is now before parliament must be supported in its entirety; it is important to find an arrangement that fits Switzerland’s particular circumstances and to reduce the risks of inadequate capital underpinning the activities of institutions. However, FINMA believes that it is equally necessary to adopt and implement measures covering the issue of “resolvability”, in other words to enable the orderly liquidation of an institution that is threatened with insolvency while ensuring that its systemically important functions are maintained. It will be necessary to adopt an imaginative approach to the application of these requirements in practice and to devise ad hoc solutions. It is vital that the recommendations of the TBTF project be given the force of law. An accident or a crisis can occur now or at any time; and indeed the present crisis is not yet at an end.

This work on systemic risk, coupled with recent experience, has served to highlight not only the importance of good cooperation with other national authorities, but also the need clearly to delimit the tasks and responsibilities of each of the bodies concerned. The two memoranda of understanding (MoUs) for 2010 and 2011, namely the revised MoU with the Swiss National Bank (SNB) and a tripartite MoU with the SNB and the Federal Department of Finance (FDF), must improve the efficacy of collaboration, which is as vital in normal times as it is in periods of crisis.

Finally, FINMA must take account of the changes that are occurring in the (financial) world around us – changes that are leading to increased complexity. I would therefore like to mention the topic of European rules governing managers of alternative investment funds (AIFs); these will have a very rapid impact on Swiss fund managers that are active in those markets but are not subject to FINMA supervision. The implementation of the corresponding Directive by the Member States of the EU in 2013 will exclude such managers from the European market in alternative investment funds.

Moreover, failure by Switzerland to act could risk attracting players that do not comply with European standards to our country. Damage to the protection offered to Swiss clients would be unavoidable. It is for this reason that FINMA, in agreement with the FDF, has embarked on the process of defining a solution that will secure access to European markets for Swiss financial intermediaries, but without placing at risk the quality of the services provided. FINMA is working in this area with the relevant authorities and the professional associations concerned.

I could continue to list our achievements and projects; but I will close at this point and refer you to our annual report and the presentations by Messrs Raaflaub and Branson, which also reflect our determination to implement our various strategic goals.