FSB- G20 - MONITORING PROGRESS – Switzerland September 2010 [For Publication in March 2011]

#		G20/FSB RECOMMENDATIONS		DEAD-LINE	PROGRESS TO DATE Explanatory notes: In addition to information on progress to date, specifying steps taken, please address the following questions: 1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction? 2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results? Also, please provide links to the relevant documents that are published.	PLANNED NEXT STEPS Explanatory notes: Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?) Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps? What are the key challenges that your jurisdiction faces in implementing the recommendations?
I. Building high quality capital and mitigating procyclicality						
1	(Pitts)	Basel II Adoption	All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.	By 2011	By 1 January 2007, Switzerland had implemented the Basel II capital framework in its entirety and for all banks subject to Swiss capital requirements (domestic and foreign operations). Switzerland is already preparing for Basel III. Requirements regarding e.g. market risk, credit counterparty risk and securitization issues have been implemented on a fast-track (“Basel 2.5”) and are effective since 1 January 2011. Also, the Swiss large banks are subject to a leverage ratio since end of 2008.	For the remainder of the Basel III requirements, a national working group has been established and will undertake the calibration of the framework. The rules are planned to get enacted beginning of 2013.

2	(FSB 2009) (Tor)	Basel II trading book revision	Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010. We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.	By end-2011	Since the implementation of the Basel II framework in 2007, the Swiss Financial Market Supervisory Authority (FINMA) has made extensive use of the Pillar II provisions in regard to the large, systemic relevant banks by imposing add-ons to the Pillar I capital requirements. As an outcome of the recent crisis, the Pillar II add-ons have been significantly augmented. Also, a leverage ratio has been imposed on the largest banks' balance sheets. The measures, which have been imposed by decree, are currently getting formalised within a regular legislative process	Banks were given a reasonable but tight implementation period. Given the timeframe for implementation, Switzerland is in many aspects ahead of the international initiatives. The leverage ratio was ordered upon banks before similar decisions were accepted on international level. As a result, Swiss large banks have a good progress on their de-risking and realignment initiatives. Implementation is closely monitored by FINMA and on track.
3	(Pitts)	Build-up of capital by banks to support lending	We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.	Ongoing	The Swiss large banks' capital planning process and the outcomes are intensely followed by FINMA. This involves the usage of profits (including for dividend payments and bonuses). The goal of this is to make sure that the banks stay on the transition path of current (Pillar II add-ons, leverage ratio) and upcoming (Basel III, SIFI surcharges) statutory requirements. The capital planning process also considers shock scenarios (LPA, see below). In regard to lending, Switzerland is not experiencing a credit crunch up until now. Hence, there is currently no need for lending support measures.	There are currently no Swiss banks not fulfilling the statutory capital requirements. On some banks have been imposed even tighter requirements as outcome of the crisis (Pillar II add-ons and leverage ratio), they are on track with the implementation and follow the transition path Given the current macroeconomic environment in Switzerland, there is currently no discussion on lending support measures.

4	(FSF 2009)	Basel II – Pillar 2 enhancement	1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.	End-2009 and ongoing	The approach adopted by FINMA to perform ST to the Swiss large banks consists of two different workstreams: (i) the Building Block Analysis (BBA), and (ii) the Loss Potential Analysis (LPA). The BBA consists in a mandatory and uniform ST-analysis imposed by FINMA to banks. This analysis is intended to address limitations in the bank-internal ST-frameworks and, at the same time, to provide a better platform to compare ST-frameworks of the two Swiss large banks. The BBA is a complement, not substitute, of banks' internal ST-Analysis; this means that banks can leverage as much as possible on their internal tools given the BBA requirements. The BBA is a project between FINMA, the Swiss National Bank (SNB) and Swiss large banks. FINMA and SNB have the lead jointly. The LPA is the analysis of the potential cumulative loss of Swiss large banks in case of a further drastic deterioration of markets. The LPA identifies so-called "hot spots", i.e. critical portfolios or business lines of the two large banks. The goal is to estimate in a pro-active and forward-looking manner the loss that banks would suffer under an adverse scenario. The LPA is intended to take a very conservative view in order to provide the order of magnitude and a corresponding upper bound of the overall loss that Swiss large banks could potentially suffer in case of worsening of economic and financial conditions. The interaction between the two is two-fold. On the one hand, results and conclusions from the BBA are used as input (together with bank-internal risk reports and discussions with banks' senior risk management) for the LPA. On the other hand, the regular discussions in the context of LPA allow highlighting new sources of risks and other aspects that are used to refine the BBA.	The instruments described are continuously fine-tuned and improved.

5	(Lon)	Supplementation of Basel II by simple, transparent, non-risk based measure	Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.	Ongoing	As a complement to the tighter risk-weighted capital requirements, FINMA has also introduced a 'leverage ratio', i.e. a limit to the banks' leverage. As for the new capital requirements the agreed leverage targets will apply as of 2013 at the earliest to prevent a procyclical impact and leaving banks with enough time to recover from the current crisis. Moreover, in bad times, banks will be allowed to temporarily fall short of the leverage target. The leverage ratio is currently only applied to the two large banks. It can, however, be extended to other banking institutions under the Basel II pillar 2, should FINMA deem such an extension appropriate.	See above (2)
6	(Pitts) (Tor)	Development of international rules to improve quantity & quality of bank capital	We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. We agreed that all members will adopt the new standards and these will be phased in over a timeframe that is consistent with sustained recovery and limits market disruption, with the aim of implementation by end-2012, and a transition horizon informed by the macroeconomic impact assessment of the FSB and BCBS.	End-2010, implement over a timeframe that is consistent with sustained recovery and limits market disruption	Work has commenced to implement the Basel III proposals In addition to the Basel III requirements, Switzerland is working on a framework to tackle the "too big to fail" issues. The findings of an expert commission with significant participation of FINMA, SNB and the Federal Department of Finance (FDF) have been published in September 2010. The legal framework has been drafted and is currently in consultation. It is planned to get enacted in 2012. As outlined above, some of the Basel requirements ("Basel 2.5") are already in force, as have been stricter Pillar II requirements and a leverage ratio for the large banks.	Implementation of Basel III is planned as of 1 January 2013.

7	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.	Ongoing	Switzerland is currently working on a new liquidity regime, which will come into force for the entire Swiss banking sector shortly. The new regime is in line with the BCBS work. For the two large banks, comparable requirements have already been put in force by decree and are currently amended and formalised.	
8	(Lon)	Development of liquidity framework	The BCBS and national authorities should develop and agree by 2010 a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions.	By 2010	The liquidity requirements have been comprehensively revised. The new regime ensures that the big banks are able to cover their potential liquidity needs in the event of a widespread loss of market confidence. In contrast to the previous regime, liquidity flows from both balance sheet and off-balance-sheet operations will be taken into account in the new regime. Furthermore, the focus of the new regime will be on severe rather than moderate stress situations. The concept of the new regime is in line with the recent international developments.	The international consensus may be less ambitious than the Swiss approach, which may impose competitive challenges.
9	(FSB 2009)	Enhancement of supervision of banks' operation in foreign currency funding markets	Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.	Ongoing	Switzerland actively monitors the cross-border funding activities of the systemically important financial institutions (SIFI). Exposure of the Swiss large banks in emerging markets is also followed closely and dealt with within supervisory colleges.	
10	(FSF 2008)	Strengthening of regulatory and capital framework for monolines	II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	Ongoing	In Switzerland, there are no monoline insurers. Hence, there is no need for regulatory action in this regard.	

II. Strengthening accounting standards						
11	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	Disclosure standards will be amended in the light of changes of internationally accepted accounting standards. Potential changes will be coordinated on the level of the BCBS and IOSCO and transposed into national regulation if deemed necessary. Switzerland also supports the FSB's initiatives on accounting issues.	
12	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and supervisors	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.	End-2009	FINMA is represented in the Accounting Task Force (ATF) of BCBS. FINMA will therefore implement the rules related to valuation reserves or adjustments (recommendation 3.4) and standards to dampen the potentially adverse dynamics of fair value accounting (recommendation 3.5) which will be developed by the ATF of the BCBS	If deemed necessary national regulation will be amended accordingly. Valuation and provisioning standards will be amended in the light of changes of internationally accepted accounting standards. Potential changes will be coordinated on the level of the ATF of the BCBS and transposed into national regulation if deemed necessary.
13	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	FINMA is represented in ATF of BCBS. FINMA will therefore implement the rules related to valuation reserves or adjustments (recommendation 3.4) and standards to dampen the potentially adverse dynamics of fair value accounting (recommendation 3.5) which will be developed by the ATF of the BCBS.	If deemed necessary national regulation will be amended accordingly. Valuation and provisioning standards will be amended in the light of changes of internationally accepted accounting standards. Potential changes will be coordinated on the level of the ATF of the BCBS and transposed into national regulation if deemed necessary.

14	(FSF 2008)	Enhanced disclosure of securitised products	III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.	Ongoing	Switzerland is taking part in the international discussions and will amend its rules where appropriate. We also support the FSB's work on disclosure.	

III. Reforming compensation practices to support financial stability						
15	(Lon) (Pitts) (Tor)	Implementation of FSB/FSF compensation principles	National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round. We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end, We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.	End-2010	FINMA has been developing a regulation on compensation in the financial sector in close coordination with the FSB and BCBS work as well bilaterally with other supervisory agencies. The FINMA rules were enacted on 1 January 2010 and are compulsory for all large banking and insurance institutions. FINMA has conducted intense reviews on compensation with the large, internationally active banks. Profit distribution and build-up of capital buffers were key aspects of these reviews.	FINMA currently extends the reviews beyond SIFI banks to smaller institutions. It is also planned to conduct an ex-post impact analysis in 2011.

16	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	Swiss compensation regulation gives FINMA the authority to apply corrective measures (including higher capital requirements) and to modify compensation structures. FINMA has already formally intervened on compensation matters at some players and actually tested its powers on compensation successfully.	Current market conditions make it increasingly difficult to influence the bank's compensation conduct. Also, more international coordination may be helpful.
IV. Improving OTC derivatives markets						
17	(Lon)	Development of action plan on the standardization of CDS markets (eg. CCP)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	Autumn 2009	We are not aware of a significant OTC market for financial derivatives in Switzerland, albeit a limited number of Swiss intermediaries are very active in the global markets. Consequently, the Swiss stance on OTC derivatives used to be more focused on market participants than on the markets and the products themselves. Of course, Swiss intermediaries have to comply with the rules of foreign markets they participate in and will therefore have to adopt to regulatory changes in all relevant markets they are active in. As supervisor of banks engaged in the credit derivatives markets, FINMA closely follows the developments in these markets and monitors the compliance of supervised institutions with the international standards.	Currently, FINMA is conducting a review of the Swiss OTC markets and Swiss participants in domestic and foreign OTC markets. Further regulatory initiatives will be based on the findings of the survey.

18	(Pitts)	Trading of all standardized OTC derivatives on exchanges etc.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	By end-2012 at the latest	See above (17)	
V. Addressing cross-border resolutions and systemically important financial institutions						
19	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	FINMA has supervisory powers for financial groups and conglomerates, including appropriate intervention powers and rights to access information on group as well as solo level. All institutions regarded as systemically important for Switzerland subject to consolidated group regulation and supervision. Group supervision, which is also applied to big insurance groups, has been broadened and extended in the aftermath of the crisis.	
20	(Pitts)	Development of resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future	We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.	October 2010	The Swiss banking resolution regime is particularly suited for cross-border cases, as its provisions allow for a resolution process across jurisdictions. The Swiss framework has been applied successfully on several occasions as it provides the instruments for timely and effective measures, protecting all stakeholders in an adequate way.	We are promoting our approach within the continuing international discussions on crisis management and resolution and actively take part in these initiatives.

VI. Strengthening adherence to international supervisory and regulatory standards.						
21	(Lon)	Adherence to international prudential regulatory and supervisory standards	We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas. We are committed to strengthened adherence to international prudential regulatory and supervisory standards.	Ongoing	Switzerland has an efficiently functioning tax system. It is not a tax haven. Switzerland has concluded a large number of bilateral and multilateral agreements which provide a basis in law for an exchange of information for tax purposes between Switzerland and other states. On 13 March 2009 the Federal Council has decided to optimize Switzerland's international cooperation with other countries and therefore adopt the OECD standard on administrative assistance contained in Article 26 of the OECD Model Convention. Switzerland is determined to act swiftly and to substantially implement this international standard. It, as of January 31 2011, already initiated 32 Double Taxation Agreement's (DTA) containing an extended administrative assistance clause. 10 of these were approved by the Federal Parliament in June 2010 As a founding member of the FATF since 1990, Switzerland not only has actively contributed to the elaboration of the international AML/CFT standards during the last thirty years, it has also been at the forefront of their implementation, as stated by several successive country reports. Since 2006,Switzerland co-chairs one of the four main permanent working groups of the FATF, namely the Working Group on Evaluations and Implementation and also co-chaired, together with the UK, the FATF Proliferation Financing Project Team until April 2010.Switzerland's AML/CFT system was evaluated in 2005 by the FATF in the framework of the 3rd round of mutual evaluations. This assessment concluded that the Swiss AML/CFT system is a robust one. The Mutual Evaluation Report highlights, among others, that the Swiss system for ensuring that financial intermediaries comply with their AML/CFT obligations is in a position to ensure full and effective supervision of the subjected entities. Since 2005, it has submitted three reports to the FATF according to the regular follow-up process and has amended its AML/CFT law and ordinances to take into account the observations of the FATF report. In October 2009, the FATF Plenary decided that Switzerland had made significant progress in addressing the deficiencies which were identified in the 2005 MER and decided to remove Switzerland from the regular follow-up process	At the same time, Switzerland will continue to actively participate in the elaboration and further development of the international standards in the relevant multilateral bodies. Switzerland will continue to consistently and swiftly implement the OECD standard in the area of taxes. As no referendum has been triggered against this first package, these Amending Protocols or Treaty may enter into force if the other contracting state also approves them. It is expected that further DTAs will be approved shortly. Global forum on transparency and exchange of information for tax purposes peer review: In the second half of 2010 the phase 1 review of Switzerland was launched (examination of the legal and regulatory framework). The Phase 2 review (evaluation of the implementation of the standards in practice) is scheduled for the second half of 2012. Switzerland will report further improvements to its AML System in October 2011 within the context of biennial update.

22	(Lon)	Periodic peer reviews	FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.	Ongoing	Switzerland has already been subject to several FSAP assessments and updates, which have been completed with favourable results. Compared internationally, the Swiss FSAP assessment is recent, as has also been communicated to the FSB secretariat mid 2009. On a national level, the involved authorities (FDF, SNB and FINMA) continuously review the ongoing initiatives in the light of the FSAP criteria and latest recommendations.	An FSB country review of Switzerland is scheduled for 2011.
23	(WAP)	Undertaking of FSAP	All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.	Ongoing	The Swiss regulatory and supervisory framework was assessed in FSAPs and IMF Art. IV consultations several times. Despite not being a G20 member, Switzerland has undergone FSAP and according updates. No aspects were assessed as non-compliant. Furthermore, the recent FSB update on information-exchange based on FSAP results showed that Switzerland is fully compliant with all relevant standards. The last update of the Swiss FSAP assessment was performed in 2007.The last Art. IV consultation was concluded in May 2010.	A FSB country review of Switzerland is scheduled for 2011. The next Art. IV mission is due in March 2011.
24	(FSF 2008)	Additional steps to check the implementation of int'l guidance	V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	Ongoing	Ongoing.	

VII. Other issues						
Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision						
25	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	SNB has been monitoring and trying to identify macroprudential risks for many years. The main challenges have been to get a better understanding of the risks and exposures of the regulated sector. In relation to the regulated sector, the unregulated sector is perceived to be of a secondary importance for financial stability in Switzerland. As detailed above, FINMA is already supervising banks from a micro- and macroeconomic perspective. It will further enhance the macro economical dimension by covering not only institutions, but also markets. In addition, the planned review of the regulatory and supervisory framework for leveraged institutions will cover policy aspects including the possibilities of a macroeconomic supervision of these institutions. Tighter supervision takes a forward-looking approach and strives to recognize trends early on. The close cooperation for monitoring and assessing financial stability risks - including the coordination of the authorities' responses to - has proved effective as a basis for responding to financial stability.	Macroprudential concepts, tools and frameworks need to be further developed and, most importantly, put into operation, in line with the ongoing international efforts to develop macroprudential frameworks (e.g., as currently being worked on at the CGFS).
26	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	FINMA has the power for gathering all relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systematic risk. At present it is strengthening its tool-kit and data collection to assess the potential mentioned. FINMA coordinates its work closely with the main regulators in the US, UK as well as in Hong Kong and Singapore in particular to supervise the investment banking business of the two large banks. For questions on systemic risk FINMA also collaborates closely with the SNB. FINMA assesses stress and potential failure of one of the large banking groups with various instruments (e.g. those mentioned above: the loss potential analysis or the building block approach).	

27	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	FINMA is continuously reviewing the adequacy of the regulatory and supervisory framework and actively contributes to the international discussion. FINMA is part of the IOSCO task force on unregulated entities and takes part in the development of the IOSCO recommendations.	
28	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.	End-2009 and ongoing	The supervisory approach of FINMA is not only focused on institutions, but also considers the (macro economical) situation on markets. That way, in cooperation with the SNB, market wide indicators are employed for the supervision of firms, thereby also considering firm specific factors. The approach will be deepened and broadened in future, also in line with international best practice. FINMA has already implemented a leverage ratio for the two large banks and actively promotes its approach in the BCBS. FINMA also monitors that margining and haircut practices at supervised firms comply with the requirements of the according markets and their supervisors as well as international standards.	In general, the concept macroprudential supervision has to be worked out further in order to effectively implement it. In this regard, the global exposure of large institutions and the fact that marco-supervision has to be performed on a global level as well is a challenge to be addressed.
29	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	SNB has been monitoring asset prices and their implications for financial stability for several years now. The results are shared with FINMA. FINMA is also monitoring particular markets on macroeconomic level, such as the real estate / mortgage segment.	

30	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	Ongoing	FINMA is operating qualified and experienced risk departments directly overseeing the risk of large banks and insurances. Other institutions are covered by an early warning system as described below and are regularly reviewed by external auditors directly reporting to FINMA (dualistic supervision). The procedure proved to be effective. It helps to concentrate supervisory resources, while at the same time making sure that issues get recognized and addressed within the continual supervision process.	
31	(FSF 2008)	Supervisory communication with firms' boards and senior management	V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	Ongoing	FINMA is actively monitoring the risk situation of supervised financial institutions. The process is two-tiered. Large banks (UBS and CS) and insurances are directly supervised by FINMA and provide data on their capital, liquidity and risk situation on a regular base. For other banks, FINMA has implemented an early warning system, operating on quantitative data regularly provided by banks to FINMA. Upcoming warning indicators are reviewed by the supervisory staff (in co-operation with auditors) and discussed with the firms' management on all relevant levels of the hierarchy. The data pool used for operating the early warning system is also employed on a macro level, giving FINMA an insight on the development of the Swiss banking sector as a whole.	

32	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	Recent experience showed that cooperation between the supervisor FINMA, SNB and FDF works well and is effective. In 2009, the Memorandum of Understanding (MoU) between SNB and FINMA was revised to include the lessons from the crisis and the new aspects of supervision, in particular macroprudential supervision and the regulation in areas of common interest, such as liquidity. In January 2011, FDF, FINMA and SNB have signed a tripartite memorandum of understanding. The agreement governs collaboration between the three authorities, which includes the exchange of information on financial stability and financial market regulation issues, as well as collaboration in the event of a crisis that could threaten the financial system's stability.	
Hedge funds						
33	(Lon)	Registration of hedge funds	Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.	End-2009	Switzerland applies both a direct and an indirect supervisory approach with respect to hedge funds. Directly supervised (after having received the necessary approval by FINMA) are all domestic hedge funds and foreign ones if they shall be distributed in public in or from Switzerland, regardless of their size. In addition, managers of domestic hedge funds need an authorization. For managers of foreign hedge funds an authorization is, so far, optional. The third element of the direct supervisory approach relates to distribution matters and concerns representatives and distributors of hedge funds. The indirect supervisory approach takes place through their interfaces with banks. Moreover, certain investment restrictions for insurers exist.	FINMA currently reviews the approach on hedge fund regulation and supervision, also in regard to information gathering and disclosure. In addition to the IOSCO principles published in June 2009, which are primarily focused on market behaviour aspects, the review also touches on policy options. Changes have to be implemented through the legislative process.

34	(Lon)	Effective oversight of cross-border funds	We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.	End-2009	FINMA is currently performing a survey to assess the systemic footprint of hedge funds, which is coordinated within IOSCO. FINMA also actively supports the IOSCO task force working on this matter.	

35	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	Prime Brokerage is a focus in the supervision of the IB activities of the 2 large banks. FINMA has regular meetings with the risk management units of the two large banks to discuss ongoing Hedge Fund (HF) issues. FINMA reviews ad hoc certain businesses activities, reviews ad hoc all kinds of HF reports both large banks produce, talks about disputes/ haircut adjustments with representatives of the large banks and has a dialog with the external and internal audit function on the prime brokerage business of the two large banks. Prime brokerage business is also an important part in our ongoing liquidity supervision of the 2 large banks. FINMA looks at liquidity in-/ outflows from the prime brokerage business and looks at HF stress models. Strategy/growth plans and as well as on-boarding strategies for new HF-clients are regularly discussed. FINMA regularly reviews several leverage indicators, margin requirements, excess collateral numbers and across several prime broker in a peer analysis. FINMA, respectively the predecessor organization SFBC, participated in the interagency working group to review the counterparty risk management practices related to hedge funds under the lead of the FRBNY. FINMA participated also in all Senior Supervisors Group (SSG) work streams that looked at counterparty credit risk management. A common report was issued that conveyed the SSG perspective on the state of CCR measurement and management practices based on discussions with major industry participants over the past two years.	
36	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing		FINMA is currently reviewing the regulatory and supervisory regime for leveraged counterparties, including hedge funds, also taking into account the IOSCO principles published in June 09.

Credit rating agencies						
37	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	Rating agencies whose ratings are used for regulatory purposes (i.e. as basis for capital adequacy) have to be registered with and recognized by FINMA. The recognition is governed by FINMA circular 2008/26 (http://www.finma.ch/d/regulierung/Documents/finma-rs-2008-26.pdf) and includes requirements in regard to objectivity, independence, access to ratings, disclosure, resources and credibility. Process and requirements are in line with the standards of the BCBS and with the "IOSCO Code of Conduct Fundamentals for Credit Rating Agencies".	
38	(Lon)	CRA practices and procedures etc.	National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.	End-2009	Switzerland has already included the requirements of the according IOSCO code in its recognition practices.	Switzerland will review the adequacy of its recognition process and requirements with respect to the recommendations of the BCBS working group. . It is envisaged that a possible need for adjustments will be rather small. In addition, the relevant agencies currently recognized for regulatory purposes are foreign firms.
39	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRAs	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.	As early as possible in 2010	Switzerland will follow the recommendations and standards of the BCBS. As nearly all relevant rating authorities are based outside Switzerland, there should not be too much room for potential conflicts.	

40	(FSF 2008)	Review of roles of ratings in regulations and supervisory rules	IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	Ongoing	Switzerland follows the respective BCBS recommendations and standards.	
Supervisory colleges						
41	(Lon)	Supervisory colleges	To establish the remaining supervisory colleges for significant cross-border firms by June 2009.	June 2009	Supervisory colleges have already been established for all four large cross-border groups requiring a college according to the criteria of the FSB (2 banks and 2 insurance firms). The insurance firms are covered by global supervisory colleges since 2008. For the two banks, arrangements similar to supervisory colleges have been in place since 2000.	
42	(FSF 2008)	Supervisory exchange of information and coordination	V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	Ongoing	On national level, SNB and FINMA share tight links in monitoring the financial sector on the micro as well as macro level and coordinate regulatory initiatives of shared interest. On international level, FINMA has long standing relations with the supervisors of important markets the Swiss SIFIs operate in and has recently broadened and extended supervisory cooperation following the BCBS work on colleges.	

Crisis management						
43	(Lon)	Implementation of FSF principles for cross-border crisis management	To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.	Immediate	Switzerland has established supervisory college arrangements for Swiss large cross-border insurance and banking groups which cover risk management and contingency aspects. College meetings dedicated to cross-border cooperation on crisis management according to Principle 4 involving all relevant authorities (central banks and supervisors) have taken place for all relevant institutions and will be repeated in future when appropriate.	
44	(Pitts)	Development of contingency and resolution plans by SIFIs and the establishment of crisis management groups etc.	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.	End-2010	An expert group has, under significant participation of FINMA, SNB and FDF, developed policy recommendations in the area of capital (quality and quantity), liquidity, organisation/resolvability as well as risk concentration. The legislation has commenced on the basis of the expert group's recommendation. The legal changes are planned to be in force as of 1 January 2013.	

45	(Tor) (WAP) (FSF 2008)	Implementation of BCBS recommendations on the cross-border bank resolution	We endorsed and have committed to implement our domestic resolution powers and tools in a manner that preserves financial stability and are committed to implement the ten key recommendations on cross-border bank resolution issued by the BCBS in March 2010. National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions. VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.	Ongoing	The Swiss banking resolution regime is particularly suited for cross-border cases, as its provisions allow for a resolution process across jurisdictions. The Swiss framework has been applied successfully on several occasions as it provides the instruments for timely and effective measures, protecting all stakeholders in an adequate way. We therefore promote our approach within the continuing international discussions on crisis management and resolution and actively take part in these initiatives. The FINMA is the integrated regulator and supervisor for the Swiss financial sector. The Banking Act (Art. 25 et sqq.) gives FINMA comprehensive competencies for intervention in case of capital and liquidity problems of banks. Between FINMA and SNB, a formal MoU is in place describing the areas of responsibility of both institutions. It also identifies areas of common interest and details the co-operation on these subjects. Furthermore, FINMA, SNB and the Federal Finance Administration are in close and regular contact, especially in regard to crisis prevention and management. The events in 2008 showed that co-operation and coordination work well.	
46	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.	Ongoing	As part of the measures undertaken to stabilize the financial system in the second half of 2008, the insured amount has been increased from CHF 30k to 100k per depositor.	A reform of the Swiss deposit insurance, which has been transmitted to Parliament on May 12, 2010, aims to fix in durable law the provisions of the temporary measures that have been decided in December 2008. It furthermore contains a comprehensive proposal for a more effective regulation of banking insolvency. The proposal is compliant with the BIS/IADI "Core Principles for Effective Deposit Insurance Systems". However, the reform, including the switch to a funded ex-ante regime, has been rejected in the consultation period.

Risk management						
47	(WAP)	Development of enhanced guidance for banks' risk management practices	Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.	Ongoing	Examples for enhanced guidance to strengthen banks' risk management practices are: • More robust liquidity regulation for the two large banks: Liquidity requirements for the two large banks are in the process of being comprehensively revised. The new liquidity regime will ensure that both large banks are able to cover their potential liquidity needs in the event of a widespread loss of market confidence. • New compensation circular of FINMA: To avoid excessive risk incentives for financial institution staff, principles for sound compensation practices were put in place. Decision makers in financial institutions have to take into account the risks of the underlying decisions, which in turn should limit excessive risk taking. The compensation circular, for which the public consultation has recently ended, has just become effective as of 1 January 2010. • Market Risk Management/ VaR framework: FINMA Backtesting Exception Add-on (FINMA has already introduced higher multiplier than BIS for more than 10 backtesting exceptions) and stress-test-based risk weighted assets for hedge funds. In general FINMA participates actively and adopts the standards/ best practices proposed by the Basel Committee and other international regulatory bodies, like the Senior Supervisors Group or others.	
48	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	FINMA is conducting in-depth discussions with the large banking institutions and assists these initiatives by providing own stress scenarios. The stress scenarios are developed in conjunction with the SNB.	FINMA and the SNB continue to monitor the economic environment and will adapt the stress scenarios as necessary.
49	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	Currently, the Swiss large banks are sufficiently capitalised and were able to deal with impaired assets (albeit with state assistance in one case).	FINMA continues to monitor the situation closely and would intervene formally and informally if necessary.

50	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	During 2010, supervisors and regulators will: • implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure; • implement IOSCO's proposals to strengthen practices in securitisation markets.	During 2010	Ongoing.	
51	(Lon)	Improvement in the risk management of securitisation	The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.	By 2010	Both large banks were informed in late 2007 that they are expected to perform due diligence on their securitization positions, particularly in the context of rating methodology. First results were presented to the regulators in 2008. Swiss banks are aware that such due diligence will soon be an integral part of the Basel II Pillar I rules	Implementation of the new BCBS measures "Enhancements to the Basel II framework" and "Revisions to the Basel II market risk framework" by 31 December 2010 is a central theme in the ongoing dialog between banks and regulators. Audit firms will verify compliance with these measures as a part of their regular audit activity.
52	(Pitts)	Retainment of a part of the risk of the underlying assets by securitisation sponsors or originators	Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.	Ongoing	FINMA will implement relevant BCBS standards.	
53	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	The Senior Supervisors Group defined in a report leading-practice disclosures for selected exposures (i.e. those instruments that the marketplace now considers to be high-risk or to involve more risk than previously thought). Both big banks have to comply with those standards. In addition since January 1 2009 CS and UBS have to issue an annual "Pillar 3 report" that provides information on their implementation of the Basel II framework and risk assessment processes in accordance with the Pillar 3 requirements.	

54	(FSF 2008)	Strengthening of supervisory requirements or best practices fir investment in structured products	II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	Ongoing	In Switzerland only banks, insurances and securities dealers are permitted to market or to service structured products to retail customers and investors (art 5 CISA). Independent of their investment in structured products, these firms have to comply with severe requirements regarding internal control and risk management practices (e.g. art 9 banking ordinance and FINMA circular 08/24). In the context of the failure of Lehman Brothers FINMA initiated several reviews. Client investments as well as nostro account of 100 banks were analysed for transaction in structured products. For 15 firms FINMA is conducting investigations with respect to the distribution of Lehman products to private clients. The focus is on advisory activities and risk disclosure practices. Other issues in this context are compensation schemes (retrocession) and proprietary trading activities.	
Others						
55	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	Switzerland supports the 2010 Fund recommendations on exiting from crisis intervention policies. Exit policies are in line with the Fund recommendations. Fiscal support is being injected as a package of temporary measures. The time of withdrawal of the measures was defined at the inception. The last stimulus will terminate in 2012. The government sold its stake in one bank that was built up as a recapitalization measure. In coordination with other central banks, the SNB has terminated its extraordinary foreign currency repo and swap agreements with other central banks. During the crisis, the SNB has made a one-off asset purchase, with no option to increase the amount of assets or to extend the offer to other banks in future. This does not require any exit.	

<u>Origin of recommendations</u>:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)
Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)
Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)

WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)
FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)
FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)
FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)