

Address by Hansueli Raggenbass,
President of the Bank Council,
to the General Meeting of Shareholders
of the Swiss National Bank, 27 April 2012

The Swiss National Bank – stability and change in a unique institution

Dear Shareholders

Ladies and Gentlemen

Dear Guests

Introduction

Today marks the tenth and final occasion that I have the privilege of welcoming you as President of the Bank Council to the General Meeting of the Swiss National Bank (SNB). As you are aware, I have decided not to stand for re-election as President this year.

I have always thoroughly enjoyed carrying out my responsibilities in the Bank Council, first as member, and later as President, and the dialogue with you here at the General Meeting is something I have also deeply appreciated. I would like to use today's occasion to share some personal observations on the development of the SNB as an institution, and the Bank Council's work over the last ten years. In doing so, I will focus on the statutory framework and on operations, since the conduct of monetary policy is, of course, the responsibility of the Governing Board. Allow me to begin with my conclusion, which is also reflected in the title of my speech: The SNB is a unique institution which is well aware of the importance of stability, and it is especially with a view to this stability that it embraces change.

The Chairman of the Governing Board's resignation and the Bank Council's reaction

Before describing the Bank Council's work in the last ten years, I would like to address the deeply regrettable affair which greatly concerned and also placed considerable strain on my fellow Bank Council members and myself over the turn of last year. For once, the difficulties did not stem from the financial markets, but rather were related to persons within the SNB and the SNB as an institution, and they also presented the Bank Council with considerable challenges. With the resignation of Philipp Hildebrand as Chairman of the Governing Board, the SNB lost an outstanding and dedicated central banker. The Bank Council reacted swiftly and comprehensively to the circumstances surrounding the resignation. I am convinced that the tasks undertaken have either already been accomplished, or are well on their way to being completed.

The Bank Council commissioned a detailed analysis of all personal transactions by members of the Governing Board and their deputies since 2009. The audit report, published at the beginning of March, concluded that the regulations on own-account transactions were complied with at all times. However, it became apparent that there was room for improvement in the existing regulations, especially in view of the SNB's considerably expanded scope of activity. In March, therefore, the Bank Council approved new regulations on private financial investments and financial transactions by members of SNB management. The new regulations are more restrictive and effective than their predecessor. In this context, I would like to point out that a review of the compliance structure applicable to all staff members had already begun in April 2011, and that amendments were approved in autumn of that year. In light of subsequent events, the bank management convened a specialist group in January to conduct a further review, focusing in particular on the regulations. A short while ago, the Bank Council discussed the results of the review and reached its decisions. Compliance will be centralised, made into an independent unit, and expanded. At the same time, the management of operational risks will be reinforced. Compliance-relevant regulations have been published on the SNB website, namely the Code of Conduct. It applies to all staff in its entirety. Also made public was the directive defining restrictions on private financial transactions made by staff. These were also tightened, in line with the regulations applicable to bank

management. Our new compliance arrangements are now fully in accordance with modern corporate standards.

The matter was also addressed by the National Council and the Council of States in March during a special session. Of central importance for the SNB were the findings by parliament that the institution's independence remain unaffected, and that the SNB continues to have an excellent reputation. In addition, the Confederation entrusted Paul Richli with analysing the current regulations governing the supervision of the SNB. His report concluded that the current distribution of supervisory powers is in line with the constitutional concern for the independence of the SNB in its conduct of monetary policy.

In the SNB, very many things function very well. What is essential for the institution is that its functioning and its credibility never depend on individual persons. The responsibility of the Bank Council is to organise the SNB in such a way that it is capable of acting at all times and to the full extent of its mandate. At no point during recent events or at any other time has this been in doubt. That also is to the credit of the Bank Council.

The Bank Council's activities over the past ten years

Allow me now to turn to the Bank Council's work over the past ten years. My early years as President were shaped by the implementation of the new monetary constitution. With the new National Bank Act (NBA), the SNB in 2004 received a modern legal basis. The NBA has proved its worth in the credit, financial and debt crises, which since 2007 have shaken the banking system and the global economy, and have presented the SNB with formidable challenges. Thanks to its solid legal basis and appropriate operational procedures, the SNB is in a position to rapidly and flexibly implement comprehensive measures necessary for the pursuit of its mandate in the interests of the country as a whole. That the legal framework has thoroughly proved itself also under difficult circumstances does not, of course, absolve us from drawing lessons from the crises. This applies not just to monetary policy, but also to the operation and organisation of the SNB. In the Bank Council, and especially in its four committees, a great deal of work is performed in the background which is extremely important for the functioning of the SNB.

The Bank Council oversees and monitors the conduct of business by the SNB. It is responsible for ensuring compliance with legislation, regulations and directives. We have always considered this mandate, as laid down in the NBA, to be of crucial importance, since the SNB's credibility rests on its full compliance with the rules.

Another highly important Bank Council task is overseeing the investment of assets and risk management. The large-scale monetary policy measures used to dampen the effects of the crises are reflected on the SNB balance sheet. As you can imagine, this has made our task even more demanding and complex. The Bank Council is also responsible for the policy on provisions, to which I will return later.

The Bank Council plays a key role in the nomination of SNB management. It draws up proposals for the election of the members of the Governing Board and their deputies for the attention of the Federal Council, and appoints directors. The Bank Council helps set the course for the future by making careful and well-considered selections of suitable management candidates. The Bank Council is aware of the importance of this responsibility, and at all times conducted the nomination process professionally and with the requisite sensitivity. It was always the candidates' professional expertise and personal qualities which were the decisive criteria. The Bank Council's staff decisions were also made solely in the interests of the institution.

A major focus of the Bank Council's activities in the early years of my term of office – I mentioned it in my introduction – was the implementation of the new monetary constitution. The new NBA, which came into effect in 2004, following intensive preparatory work in which the Bank Council also participated, introduced more than just superficial changes. It led to fundamental alterations in the legal structure, the organisation, the operation and the processes of the SNB, in which the Bank Council also played a significant role. I will give you some examples: Today the SNB has four governance bodies, namely the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. Previously there were seven. The Audit Board and Risk Management have been substantially reinforced.

The new NBA brought with it considerable changes for the Bank Council. It used to number 40 members – today it has 11. Although reduced in number, its role was significantly enhanced by the new NBA. To better fulfil certain tasks, the Bank Council established four committees: the Compensation, Nomination, Risk and Audit Committees. The detailed preparatory work carried out by these committees is vital for the functioning of the Bank Council and significantly lightens the load on the President.

With regard to improvements in operational workflows, an integrated planning and budget process was introduced, leading to tighter cost management (I refer here to operating expenses, not to costs potentially incurred by the SNB as a result of monetary policy decisions). The fact that the SNB has a monopoly position, that it can create money, and is therefore not subject to the laws of the market, does not imply that the Bank Council is unconcerned with managing costs. On the contrary: A prudent and responsible usage of the resources entrusted to us has always been an important concern. We placed great worth, for instance, on making sure that salaries were appropriate and competitive, and on a sustainable management of our properties.

The Bank Council has done a great deal to ensure that today the SNB is equipped with modern, appropriate regulations on business management and controlling, as well as with effective checks and balances. These regulations – or to give them their contemporary moniker, corporate governance – create the basis for the SNB to work efficiently and be accountable in a transparent way. They are an essential reason for why politicians and the general public can and do put their trust in the National Bank.

The new NBA also clearly defined the policy on provisions and the determination and distribution of profits, and allocated responsibility for the level of provisions to the Bank Council. The recent past has again demonstrated that monetary policy cannot be driven by earnings considerations. In the 2010 financial year, the SNB sustained a record loss of CHF 21 billion – I commented on the subject at the General Meeting last year. For 2011 it has recorded a profit of CHF 13 billion. Its monetary policy mandate, however, was the same in both years. As a consequence of its monetary policy measures, in the last few years the balance sheet has lengthened, and the range in earnings fluctuations has widened. A healthy balance sheet is vital in ensuring that a central bank has the freedom

of action it needs to conduct its monetary policy. In view of increased balance sheet risks, the Bank Council decided to double the provisions as early as 2009. Developments in the interim have confirmed that this caution was appropriate.

In 2002, the SNB and the Federal Department of Finance concluded a profit distribution agreement which provided for an annual distribution of CHF 2.5 billion to the Confederation and the cantons. As Bank Council President, I repeatedly pointed out that this sum exceeds the long-term distribution potential, and regularly cautioned the public sector against becoming reliant on such large amounts. Last year, in accordance with the new profit distribution agreement, the SNB reduced its annual distribution to CHF 1 billion. This, incidentally, is the level we have for years maintained is the long-term distribution potential. I am pleased that we were able to find a solution satisfactory for all parties involved, since the agreement helps to ensure that the SNB balance sheet remains healthy, which is an essential prerequisite for the successful conduct of monetary policy. A successful monetary policy is also in the interests of the Confederation and the cantons. We are, however, aware that the distributions are important for the public sector, and try, wherever possible, to make them, on condition that the balance sheet permits this.

The new NBA has also brought changes for you, the shareholders. Today, your shares, with a nominal value of CHF 250 each, are fully paid up. We have made our shares available for foreign ownership – at present, our single biggest private shareholder is not domiciled in Switzerland. We have also stopped printing shares. SNB shares are, however, still listed on the Swiss stock exchange. Given the size of our balance sheet, share capital has long ceased to be significant in terms of risk, but our private shareholders continue to be an expression of how the SNB is firmly anchored in the country, and trustee and guarantor of our independence. As you know, the SNB fulfils a public mandate, its say is therefore limited, and dividends, in particular, are stipulated by law. An SNB share is thus no ordinary share, but rather has a sentimental value – in the true sense of the word. I would therefore like to thank our private shareholders for their loyalty and their interest in our institution.

Three wishes for the SNB

Allow me – before I conclude – to express three wishes to politicians, but also to the general public. They concern the culture of stability, independence and trust.

First, it is essential that the SNB's **culture of stability** is understood and continues to find complete support. For it is this culture of stability, which has been in place at the SNB for decades and which has the backing of the public, that enables it to carry out its statutory mandate in the interests of the country as a whole. Stability in this context does not mean simply doing as little as possible – quite the opposite. In 2008, the SNB took on major risks in establishing the stabilisation fund. This was done to strengthen the Swiss financial system and to counter an extreme threat to the stability of the financial system as a whole. Last year, in setting the minimum exchange rate, the SNB again exposed itself to considerable risks, in order to prevent significant damage to the Swiss economy. Such exceptional measures are only possible if the culture of stability is widely supported and well anchored.

Second, it is vital that the SNB's **independence** in its conduct of monetary policy is fully safeguarded and respected. Were the SNB to become a political football, it could no longer fulfil its mandate in the interests of the country as a whole. Economic history and theory are clear on this point: Independence is essential for a central bank to successfully conduct its monetary policy. This does not imply that the SNB be given free rein. It must be accountable to the Federal Council and parliament and keep the public informed.

Third, the right degree of **trust** is necessary, both within the SNB and from outside. Trust is a fundamental resource for the SNB as an institution. The past months have reminded us that trust must always be earned and guarded.

It is therefore my wish that the SNB continues to operate on the basis of a widely-supported culture of stability, that its independence – in difficult times, too – remain unaffected, and that it carries on finding the trust it needs. The SNB is trustworthy. Its staff are also mindful of the institution's uniqueness, and conduct themselves responsibly and in the interests of our country.

Concluding remarks

Allow me to conclude. The modernisation of the SNB's legal basis and the optimisation of its operational structures and processes have proved their worth. Today, the SNB is a fundamentally solid institution. For that I am thankful, and it fills me with satisfaction to know I was able to make a contribution. I, too, have always experienced the SNB as a unique institution, whose qualities and strengths we must preserve and cultivate. I am therefore pleased to pass the baton on to my successor. I am handing over the SNB in good condition.

A former Chairman of the Governing Board, with a view to the lifespan of the SNB, conceived the following bon mot: 'We are here for eternity'. It is therefore all the more important to continue checking whether maintenance or renovation work is necessary, and so ensure that the institution remains sound, resilient and habitable now as in the future. For it is ultimately the members of this institution upon whom the trust in the SNB rests.

I would like to say a few words of thanks. First, I wish to thank my fellow Bank Council members for their dedicated service and constructive cooperation. But I also thank you, our shareholders, the representatives of the cantons and other public institutions, and the private shareholders as well. Others to whom I extend my thanks include the Governing Board and the SNB staff. They have all contributed a great deal in the past few years. To my successor, finally, I wish much success, fulfilment and joy in this position.

Thank you for your attention.