

Speech

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The Swiss National Bank – continuity and change in eventful times

111th Ordinary General Meeting of Shareholders of the
Swiss National Bank

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President of the Bank Council
Swiss National Bank
Berne, 26 April 2019

Dear Shareholders
Ladies and Gentlemen
Dear Guests

Today marks the seventh and final occasion that I have the privilege of welcoming you to the General Meeting of the Swiss National Bank in my capacity as President of the Bank Council. As you know, the National Bank Act limits the term of office of Bank Council members to twelve years. As exactly twelve years have passed since my election to the Bank Council in spring 2007, my term of office ends with this General Meeting.

I have always greatly enjoyed performing my Bank Council duties, initially as a Member, then as Vice President and, finally, as President. And my interactions with you at the General Meeting have invariably been a particular highlight. So, while I am delighted to be here, it is with a certain wistfulness that I chair this – my last – General Meeting. With your permission, I'd like give a *tour d'horizon* of my twelve-year tenure, particularly my seven years as President, and mention some of the major milestones in the Bank Council's work during this period.

I was a member of the cantonal government of Neuchâtel and a representative of the cantons, the SNB's most important shareholders, when the Federal Council elected me to the Bank Council in spring 2007. The SNB celebrated its 100th anniversary that same year. I can still clearly recall the festivities taking place against a buoyant and confident economic backdrop.

By the time I had been appointed Vice President of the Bank Council barely a year later, the mood had changed dramatically. Emanating from the US, the financial crisis had spread across the global financial system. In autumn 2008, the Confederation and the SNB had to step in to rescue Switzerland's biggest bank, UBS. The SNB set up a stabilisation fund to which it granted a loan, enabling it to purchase a portfolio of risky assets from UBS. The decision to support UBS and establish the stabilisation fund fell within the monetary policy remit of the Governing Board. Given its supervisory and control powers, the Bank Council was closely involved in the entire operation. It was particularly concerned to ensure that the risk management and risk control processes were adequate given the additional tasks, and that the new assets were being valued in line with accounting standards. So my years as Vice President of the Bank Council were dominated by the first phase of the financial crisis and the creation of the stabilisation fund.

When the financial crisis morphed into a debt and, ultimately, a euro crisis, the SNB decided to deploy various instruments to protect Switzerland's economy against excessive Swiss franc appreciation; they included the minimum exchange rate against the euro, and later the negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary. These decisions likewise fell within the monetary policy remit of the Governing Board. Although the stabilisation fund would eventually be wound down, the financial crisis was to have a profound impact on the SNB. The most obvious consequence of it was the growth of the SNB's balance sheet. At the end of 2011, just before I took over as President of the Bank Council, the SNB's balance sheet total stood at CHF 346.1 billion; by the end of

2018, it stood at CHF 817.1 billion. The balance sheet has thus more than doubled in size over the last seven years. This growth underscores the fact that in Switzerland the crisis has principally been managed via the SNB's monetary policy. The approach was successful – Switzerland weathered the crisis better than most other countries.

This substantial growth triggered by a new and complex range of tasks presented the SNB with new challenges, which in turn required more staff. The SNB had 723 employees on its books at the end of 2011; by the end of 2018, this figure had risen to 923. Nonetheless, despite this increase, the SNB remains a lean central bank. Many strands of the Bank Council's work as a supervisory body were also heavily influenced by this growth and its consequences. I'd now like to talk about the key work streams of the Bank Council during my seven-year term as President. Before I do, though, let me briefly return to the rather unusual circumstances that prevailed when I took up the presidency in spring 2012.

Compliance and revision of internal regulations

As you may recall, I became President of the Bank Council during a difficult period for the SNB. Not only was it facing major monetary policy challenges, but the institution itself found itself in the spotlight. After the resignation of the Chairman of the Governing Board, the strengthening of compliance therefore became one of the Bank Council's top priorities.

An independent Compliance unit was set up; it reports annually to the Audit Committee and to the Bank Council on major compliance risks and the state of compliance within the organisation. The expansion of the compliance function has been a very valuable exercise. The Compliance unit not only monitors adherence to relevant regulations and directives, but it also conducts training sessions, raises awareness of certain topics and gives a sense of security to staff seeking guidance. The unit has become a trusted partner for all compliance-related questions and makes an important contribution to protecting the SNB's reputation.

As part of this process of strengthening compliance, in recent years the Bank Council has also revised relevant internal regulations pertaining to members of the Governing Board and their deputies – specifically, regulations on the employment relationship, regulations on private financial investments and transactions, and regulations on the acceptance of gifts and invitations. And finally, the Bank Council created a 'Code of Conduct' setting out the ground rules to be observed by its own members in the interests of upholding the reputation of the bank.

I am happy to say that these regulations are state-of-the-art and are effective tools for protecting the reputation of the SNB and its representatives. This is extremely important in an era when central banks are subject to greater public scrutiny than they have been in the past.

Growth of the SNB in the wake of the financial, debt and euro crisis

Let me now return to the SNB's growth in the aftermath of the financial, debt and euro crisis. The crisis presented the SNB with a range of new tasks – or the amplification of existing tasks – which meant staff levels had to be increased.

Monetary policy implementation was particularly affected by these upheavals. The large-scale foreign currency purchases needed to counter upward pressure on the Swiss franc placed entirely new demands on the teams responsible for foreign exchange and asset management. In order to ensure a round-the-clock presence on the foreign exchange market and optimal management of its rapidly expanding portfolio of assets in Asia, in 2013 the SNB even established a branch office in Singapore. It was not just a case of investing the assets but also of monitoring the risks associated with these investments. The growth of the balance sheet thus had resource implications for the Money Market and Foreign Exchange, Asset Management, and Risk Management divisions.

The growth of the operational units also caused units with support functions – most notably IT – to expand significantly. IT infrastructure had to be upgraded in line with the SNB's new or expanded range of tasks. At the same time, cybersecurity had to be ramped up to deal with cyberthreats. Other support units also expanded – albeit to a lesser extent than IT.

The fact that headcount had risen by more than a quarter increased office space requirements. This need was met by optimising workplace configurations, but also by expanding existing sites and acquiring new properties.

And finally, steps had to be taken at an organisational level to cope with the growth of recent years. A bank-wide reorganisation was rolled out in mid-2014, with measures affecting management, the organisational structure, and processes. The reorganisation has proved helpful, allowing the bank to be managed effectively and efficiently – especially in challenging times.

The Bank Council has closely monitored the SNB's growth over recent years. As a supervisory body, it is responsible for passing the annual budget and approving the annual budget statement. It also takes note of the SNB's resource management strategies, particularly with respect to IT, HR and real estate, and initiates regular reviews. Major undertakings, such as complex real estate projects like the renovation of the SNB's Bundesplatz 1 site in Berne, are also submitted to the Bank Council for approval.

In its role as supervisory body, the Bank Council is also charged with laying down the SNB's basic organisational structure. It was thus actively involved with the bank-wide reorganisation in 2014. And last but not least, under its powers to open and close branches, the Bank Council approved the opening of the SNB's branch office in Singapore.

Balance sheet growth, asset management, provisions and profit distribution

Having talked about the growth of the SNB as an institution, I'd now like to move on to the growth of its balance sheet. The huge increase in the SNB's foreign exchange reserves has brought the importance of managing these assets into sharp relief. The Governing Board is responsible for the investment of assets. It selects which asset classes and currencies are permitted, and how the investments are allocated. Similarly, it is responsible for setting the exclusion criteria for equity investments and for exercising the voting rights attached to shareholdings. For its part, the Bank Council is responsible for overseeing the investment of assets and risk management. The substantial growth of the foreign exchange reserves over the last few years has prompted the Bank Council to focus more closely on its oversight role.

The expansion of the balance sheet has increased earnings potential, but also the risk of losses. The SNB aims for a robust balance sheet with sufficient equity capital, to ensure that it can absorb even a large volume of losses. The expansion of the balance sheet made it necessary to strengthen equity capital over the long term; a substantial portion of the capital is drawn from the annual provisions. The SNB therefore decided that, as of 2016, the existing provisions rule would be supplemented by an annual minimum allocation. This supplementary allocation contributes significantly to the build-up of equity capital, and to the soundness of the SNB's balance sheet.

The policy on provisions, in turn, affects the annual profit distribution to the Confederation and the cantons, and of course to you, the shareholders. However, it is ultimately the annual results and the profit or loss carried forward which dictate whether the annual profit distribution can take place. The dividend is fixed by law, and the profit distribution to the Confederation and cantons is set down in an agreement between the SNB and the Federal Department of Finance, which is renewed every five years. The current profit distribution agreement was negotiated at the end of 2016 and takes the revised provisions policy into account. The agreement helps to keep the SNB's balance sheet healthy, which is critical for the successful pursuit of monetary policy.

The ninth banknote series

Let me say a few words about the SNB's most visible product, our country's banknotes. Six weeks ago, the SNB released the new 1000-franc note. The 100-franc note will follow in September, whereupon the issuance of the ninth banknote series will be complete. The new series equips Switzerland with banknotes that are both more modern and more secure than the previous generation. The new series combines complex security features and cutting-edge design.

The Bank Council is responsible for signing off on the design of the banknotes. For the ninth series the SNB adopted an entirely new design approach. As you know, the notes no longer portray well-known personalities. Instead, they each depict a typically Swiss characteristic, which is illustrated using an activity and a Swiss location.

I am delighted to say that the new banknote series has been warmly received by the public. I was also very pleased to hear that two of the new notes – the 50-franc and the 10-franc – received the Banknote of the Year award from the International Bank Note Society, in 2016 and 2017 respectively. I hope you will forgive me for adding a personal comment here on two of the new banknotes: As a citizen of Neuchâtel, I am particularly pleased that the illustration of a watch movement on the back of the 10-franc note pays homage to the Swiss watchmaking industry, and, as President of the Board of Trustees at Cinémathèque Suisse, I am gratified to see the film industry being honoured on the 20-franc note, with the image of the Piazza Grande in Locarno during the film festival.

Renewing the SNB's senior management

Ladies and gentlemen, the Bank Council may have chosen not to depict personalities on the banknotes any more; but it regularly has to scrutinise personalities in other areas of its work. The Bank Council plays a pivotal role in the appointment of the SNB's senior management. It draws up proposals for submission to the Federal Council regarding the appointment of the members of the Governing Board and their deputies. During my term in office, one-third of the six-member Enlarged Governing Board has been replaced. Proposals are submitted to the Federal Council following a meticulous and professional selection process. The key criteria are invariably the candidates' professional expertise and personal qualities.

Thanks to the staffing choices of the Bank Council, and ultimately the Federal Council, the SNB has benefited from a senior management team that has proved its worth – even in the most difficult of circumstances. I am confident that the Bank Council will continue to play its part in ensuring that the SNB has the best possible human resources in place to deal with any future challenges.

Closing remarks

Ladies and gentlemen, as you can see, the SNB has undergone quite a few developments and changes over the last few years. Yet, through all these changes, one thing has remained constant: the institution's statutory mandate to conduct monetary policy in the interests of the country as a whole. This undertaking lies at the heart of everything the SNB does. Ultimately, the changes of the last few years have been aimed at fulfilling this mandate in the best way possible, and all the changes to come in the future will be guided by this same overarching purpose.

Before I finish my speech, I would like to say a few words about what, to me, is the essential prerequisite for successful monetary policy. The SNB can only fulfil its statutory mandate if it retains full independence in monetary policy matters. A politicised central bank would no longer be able to carry out its tasks in the best interests of the country as a whole. Swiss legislators were well aware of the crucial importance of independence when the SNB was established over 100 years ago. The counterparts to independence are the SNB's duty to report to the Federal Council on the fulfilment of its mandate (accountability report) and to

provide information on its activities. Ultimately, independence is a function of the public's trust in the central bank. The SNB must continually win this trust anew, by fulfilling its mandate to the best of its ability. As President of the Bank Council, it has been a pleasure and an honour to be part of this noble endeavour.

And now I would like to thank the people who have accompanied me on this journey. Thank you to my fellow Bank Council members – for all their hard work, for their constructive cooperation and their collegial attitude. Thanks also to the Chairman of the Governing Board, Thomas Jordan, for a consistently cordial and productive collaboration. I would also like to thank the SNB's employees for their unstinting efforts. Finally, I would like to thank all of you, the shareholders – whether cantons, public sector entities or private individuals.

Now, at the end of this General Meeting, I pass the baton to my successor as Bank Council President, Barbara Janom Steiner. I wish her success, satisfaction and happiness in her new role.

Thank you for your attention.