



Swiss Financial Analysts Association

Schweizerische Vereinigung für Finanzanalyse und Vermögensverwaltung

Association Suisse des Analystes financiers et Gestionnaires de fortunes

Associazione Svizzera degli Analisti finanziari e Gestori patrimoniali

SFAA Newsletter

Quarterly Newsletter No. 1 / June 2003

Editorial

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Contact information

SFAA Secretariat
Feldstrasse 80
8180 Bülach
Switzerland
Phone: +41 1 872 35 40
Fax: +41 1 872 35 32
E-Mail: info@sfaa.ch
Web: www.sfaa.ch

Words of the SFAA-President, Stephan E. Meier

Zurich, May 2003

Dear reader,

3 years "after the bubble burst" we find ourselves in a very different market environment than in the nineties. The strong correction in stock markets after the "bubble" has left many investors discontent. This has led to a much more critical review of the work done by financial institutions. In addition to this, we recently had a number of well published scandals that severely shook investors' confidence in financial analysts, accountants, auditors and even regulators.

Distinguishing between good and bad recommendations

One could argue that investors should blame themselves first for their misery. They have independent minds and did not have to buy stocks when they read analyst recommendations. As long as analysts did not act on inside information or wilfully mislead investors, they should not be held accountable for a bad tip. Only their reputation should suffer. I can sympathise with this argument, as it advocates a "market solution" to the problem of bad analyst recommendations. But there is a deeper problem: Are we really able today to differentiate good research from bad research?

Financial research is a complex matter. Stock recommendations have both qualitative and quantitative



aspects. Evaluating qualitative aspects of research is difficult and will always be dependent on the evaluator himself. On the other hand, quantitative aspects of research can be measured. We are probably all familiar with the IBES Earnings per Share database and the corresponding analytic's. Much less people know "AQ Publications" which use IBES Data to establish how researchers actually performed when forecasting EPS. There are also well established standards in performance measurement for asset managers. Under the lead of the Swiss Bankers Association (SBA), the Swiss financial market has developed the Swiss Performance Presentation Standards (SPPS). They are an established industry standard for all asset managers in regard to performance reporting. There is also a broad range of firms that publish performance statistics on funds. Completely lacking up to now, however, is transparency in the market of



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analyst recommendations.

An important goal of the SFAA is to promote transparency in the Swiss financial market. 15 years ago the SFAA was a forerunner in the fight for more transparency in accounting. The work of our commission "Information for Shareholders" was widely recognized in Switzerland and has strongly contributed to the improvement in financial accounting of listed companies in the Swiss Market.

More than just another management information system

Today, we believe we are "ahead of the curve" by addressing the topic of transparency for the performance of analyst recommendations. The SFAA has done some pioneering work with the publication of the Information Standard for Analysts (ISfA) and the corresponding software that enables the implementation of the Standard, the Information System for Analysts (also ISfA). We are in the midst of the market introduction for the ISfA system and have had very good experiences so far. The reaction of market participants and users has been positive and encouraging. We are therefore optimistic that the ISfA Standard will find broad acceptance and be used by more and more institutions in the months to come. It seems obvious that ISfA is a very good "management information system" as it allows clear and objective measurement of a key component of the analyst's job. But our intention with ISfA goes clearly beyond offering a software tool for internal manage-

ment information. We strive to have ISfA as widely recognised as possible and ultimately arrive at a position where all research houses voluntarily use the ISfA Standard to communicate with their clients about the performance they achieve. Besides working with the SBA in Switzerland as a key institution in the question of performance measurement standards, the SFAA has also started promotion on a European level. ISfA has been endorsed by the "European Federation of Financial Analysts Societies (EFFAS)" and ISfA has also been presented to influential working groups involved in drafting new EU regulations.

After our initial presentation of the Standard and the Software on April 28 2003, the SFAA and ISfA have asked all market participants for feedback. For this purpose, we have opened a two month period lasting until the end of June 2003. We hope you will take this opportunity to comment on our work.

With ISfA, we look forward to creating a further strong improvement in transparency in the Swiss financial market and thus consolidate the value of our profession.

Kind regards

Stephan Meier
(President SFAA)



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The standard for measuring analyst recommendation performance is launched

On April 28th the SFAA launched a new standard for the measurement of performance of financial analysts recommendations. Some 200 participants of the banking industry and the media attended the two simultaneous presentations of the unique ISfA-Standard in Geneva and Zurich. The Swiss financial press broadly covered the event. Reports by L'Agéfi, Cash, Facts, Finanz und Wirtschaft, Handelszeitung, Le Temps and Neue Zürcher Zeitung welcomed the initiative: «The SFAA has made another step to cement the cracked credibility of the guild», commented the NZZ and L'Agéfi wrote: «Without any doubt, the tool will accelerate the restoration of investors confidence in the profession.»

A tighter focus on real talent

Bankers expect that the new standard will soon show results. Philipp Hildebrand, Member of the Executive Committee of Union Bancaire Privée, a pilot-user of the ISfA-System, said: «The instrument shows what the added value of financial analysts really is. This is an existential question, because if analysts don't create sufficient value added, they are useless.» Analysts also pointed out the advantages of stricter control. «Some people might come under pressure, but a good measuring system is in our interest», said ZKB's Head analyst Marco Curti, «because we are fed up with being victimized in the general analyst-bashing, despite having done

a good job.» «I am not afraid of comparison», added Bank Vontobel's Head analyst Thomas Pfyl, «analysts will just have to face ratings; just as they have existed for years among fund managers.» Research also relies on many qualitative aspects, as the NZZ reminded: «Speed and comprehensibility of studies, their originality and the accuracy of earnings-estimations are as important factors of research quality, as the value added.» With the launch of ISfA, however, an instrument to numerically measure the success of analysts' work now exists. And since this will also make it much easier to scout about for talent, «the industry will radically focus on talent», Mr. Hildebrand predicted.

«In the present regulatory context there is a good chance that the ISfA-system will become indispensable», said Serge Ledermann, Head of Asset Management at LODH, «even more so in view of its independence and the very few alternatives that exist to it.» Professor Rajna Gibson of the Swiss Banking Institute believes «that the main pressure to adopt the ISfA-Standard will come from the market. There will be pressure to achieve more credibility, quite similar to in the mid nineties, when risk management tools were introduced.»



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SFAA Events

June 2003:

- Thursday 19 SFAA General Assembly in Geneva
SFAA Graduation Ceremony in Geneva
- Monday 30 Deadline to submit comments and suggested amendments/improvements regarding the new ISfA-Standard

SFAA Examination Dates

August 2003:

- Thursday 28 & Friday 29 Foundation examination for Federal Diploma for Financial Analyst and Portfolio Manager (CIIA®) in Interlaken
- Foundation examination for Federal Diploma for Expert in Finance and Investments in Interlaken

September 2003:

- Thursday 11 & Friday 12 Final examination for Federal Diploma for Financial Analyst and Portfolio Manager (CIIA®) in Interlaken
- Final examination for Federal Diploma for Expert in Finance and Investments in Interlaken

March 2004:

- Thursday 4 & Friday 5 Foundation and Final examination for Federal Diploma for Financial Analyst and Portfolio Manager (CIIA®) in Interlaken
- Foundation and Final examination for Federal Diploma for Expert in Finance and Investments in Interlaken

If you need any additional information, please do not hesitate to contact us:
E-mail: info@sfaa.ch or telephon 01/872 35 40.