



SFAA Newsletter

The Newsletter of the Swiss Financial Analysts Association

Quarterly Edition – October 2003

Content

- Editorial
- Regulatory issue
- New Education
- Agenda

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

New structure for increased action

Dear Reader

Three months after the Swiss Banking Association's new guidelines for the independence of financial analysis have come into effect, broad resistance has risen against article 33 of these rules, forbidding analysts to buy securities which they research. A recent survey among the joint 2100 members of the SFAA and our peer-association SSIP shows that 78% of the Swiss analysts oppose this article. Our associations are now considering taking action against article 33. Read on page 2 how inappropriate this rule is and what better regulatory alternatives exist.

The good news in our house comes from the AZEK/CFPI. Our renowned Training Centre has launched a new financial training program in August. The first course for the Certified International Wealth Manager (CIWM™), a high quality international diploma, will start in February 2004. Please read about it on page 3.

New organisational structure of the SFAA

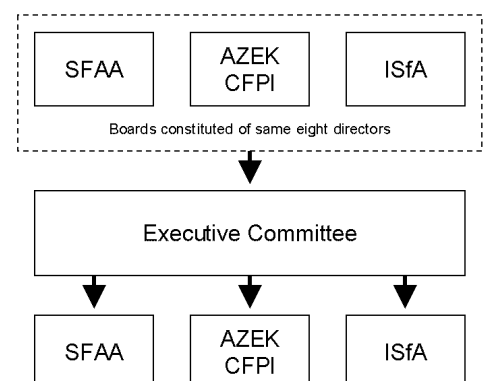
The SFAA also faces an important organizational change: At this year's general assembly we gave ourselves a leaner and more stringent structure. We downsized our board of directors and restructured the executive management, in order to separate and better define the responsibilities between the strategic and the operational level.

Being an association, the SFAA has no commercial activity. Yet it has developed several profit-oriented subsidiaries over the years. The best-known and most important example is the Training Centre for Investment Professionals (AZEK/CFPI). Recently we founded ISfA, a producer and developer of banking-software, more precisely of a standard for measuring the performance of financial analysts recommendations.

In the new structure valid since June 2003, the board of directors is cut down to eight people, with the same persons being nominated to the boards of all SFAA-entities. The new control structure is shown in the figure above. It combines agile and central governance with clear separation of powers.

The general assembly also appointed an independent «Committee of Discharge», which will henceforth examine the books of the SFAA companies and recommend whether or not the general assembly should discharge the board of directors.

The New Structure of the SFAA



Content

- Editorial

- Regulatory issue

- New Education

- Agenda

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

Throwing out the baby with the bathwater

Prohibition of proprietary trading – wrong solution

Marco Curti, executive committee SFAA

At the proposal of the Swiss Banking Association (SBA), the Swiss Banking Committee on 1st of July enacted extensive regulations for all banks to guarantee the independence of financial analysis and to avoid conflicts of interest. One particular rule, article 33, which prohibits analysts from investing in securities that they research, has since become a bone of contention. According to a recent survey conducted by the Swiss analysts-associations SFAA and SSIP, 78 percent of the Swiss Analysts consider article 33 to be an inappropriate requirement and support action against it.

Why such a broad common front? Do analysts attempt to save an illegal yet profitable source of income by defending their chances to further practise front-running? By no means!

We financial analysts don't endorse radical laissez-faire-policy, but have for a long time supported fair and transparent rules, that may well include restrictions and sanctions. The SFAA has already established a «Handbook of Best Practise» for ethical behaviour released in mid 2002, and also played an active role in the development of the current SBA-guidelines. Unfortunately, the SBA didn't comply with the advice of its own group of experts. Instead, they regarded it as politically opportune to install a radical «tabula rasa» solution by generally forbidding all proprietary trading.

Regulatory overkill in Switzerland

There are a numerous arguments against the Swiss prohibition of proprietary trading: **Disproportionate measure.** The interdiction represents a grave violation of the freedom of trade. While restrictions of this kind can be imposed even in a liberal democracy, to pro-

tect a higher public interest, they may, however, only be decreed if there is no alternative at hand that reaches the same purpose. As the common practice in other countries shows, as well as the alternative propositions put forward by our associations (see below), the independence of analysts can be achieved with far less invasive measures. Renowned legal experts therefore regard it as highly probable that article 33 could be successfully challenged before the court.

Switzerland goes it alone. The Swiss ban of proprietary trading is unique in its absolute form. Even in the U.S. where regulators and attorneys have imposed severe regulations for the financial community, personal investments are still allowed. For the EU, the «Forum Group» proposes prohibition only as a last resort, in cases where employers don't implement the alternative rules.

Setting a dangerous precedent. No other professional group is subject to such rigid regulation as we analysts, although many others are exposed to potential conflicts of interest, such as asset managers, traders, customer advisers, credit executives, investment bankers or the top management, to name only a few. Tying up our hands, while our colleagues may invest, is discriminatory! On the other hand, the analysts rule may easily become a precedent for future regulations imposed on the other financial professions as well.

Counterproductive for investors. Excluding analysts from investing is as foolish as castrating sex therapists. Most investors, especially institutional, appreciate analysts putting their own money at risk in line with theirs. In sectors like the private equity or hedge fund industry, this alignment of interest even belongs to the best practices.

Exodus of the best. The sum of injustice and disadvantages represented by rule 33 will particularly cause some of the best analysts to be fed up and leave their jobs in Switzerland. This brain drain would not only affect customers, but the Swiss banking centre as a whole.

Content

- Editorial

- Regulatory issue

- New Education

- Agenda

There are better alternatives

In consequence, the Swiss analyst associations SFAA and SSIP have decided not to simply accept the controversial article 33, but to demand a new round of talks in order to find a better solution. This solution is based on the original proposals of the group of experts within the SBA, plus an add-on:

Financial analysts may only invest into securities that they research, if they comply with the following rules:

- Minimal holding period of 15 days
- Full disclosure of all personal investments in the research report
- No transaction within 30 days before and 5 days after publication of a report (In case of

reports made in fewer than 30 days, the analyst may not trade during the preparation until 5 days after publication).

- No transactions contrary to a recommendation until 10 days after its publication.
- Further: Analysts must be compensated according to the performance of their individual recommendations and the quality of their research.

We are convinced that this proposal will guarantee the independence of analysts, prevent conflicts of interest, create transparency and thus strengthen clients confidence into financial research, without improperly retrenching the analyst's right to long-term provisions for his retirement.

New education programme

AZEK-Institute Launches Wealth Manager Training

Jean-Claude Dufournet, CEO AZEK

On September 9th, the Training Centre for Investment Professionals (AZEK) launched the Certified International Wealth Manager (CIWM™), a new professional certification for the banking industry. Based on the programme for the federal diploma «Expert in Finance and Investment», taught at the AZEK since 1997, the CIWM provides a substantially expanded training scheme and international recognition.

Wealth Management is the development of traditional private banking towards a holistic and long-term approach to customer advisory. It is based on an in-depth understanding of the individual overall-situation of clients in the present and future. The made-to-measure training programme of the CIWM™ corresponds to these requirements.

A specific training for private banking

There were three main motives for the AZEK-institute to introduce the CIWM™: Firstly, the purely Swiss education on offer so far is not sufficient in an increasingly international environment. Secondly, the restructuring of most banks into separate units for product development, portfolio management and customer relationship has caused market-needs to shift. As a result, the previous federal diploma «Expert in Finance and Investment» didn't fully match the criteria anymore. Thirdly, several banks wanting to improve the quality of their service have expressed their desire for a more sophisticated education specifically customized to private banking.

The AZEK-institute and its owner, the SFAA have responded to this Europe-wide demand. In January 2004, the first lectures for the CIWM™ will commence in Zurich, Geneva and Lugano. Over 100 human relations and education executives present at the launch conferences of the CIWM™ in Zurich and Geneva have welcomed the initiative. The inscription period for the first CIWM-class lasts until November 30, 2003. Holders of other SFAA-diplomas have the possibility to

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



Content

- Editorial

- Regulatory issue

- New Education

- Agenda

achieve the CIWM™ by attending the missing modules only. Please refer to azek.org/Expert-CIWM to learn about these eased conditions.

In addition to the SFAA, the CIWM-diploma is recognised and endorsed by the European Federation of Financial Analysts Societies

(EFFAS) and its approval by the Association of Certified International Investment Analysts (ACIIA) is in good progress. Thus, the reputation of the CIWM-diploma will profit from the same proven international alliance that is already endorsing the CIIA-diploma, awarded by the SFAA since 2002.

Agenda

- **November 30, 2003** End of Inscription period for all courses in 2004
- **January 5, 2004** Start of the preparatory course in mathematics in Zurich and Geneva
- **January 22, 2004** Start of the main courses in Zurich
- **January 28, 2004** Start of the main courses in Geneva

- **March 4. and 5., 2004** Foundation and final examination for Federal Diploma of Expert in Finance and Investments in Interlaken

Foundation and final examination for Federal Diploma of Financial Analyst and Portfolio Manager (CIIA®) in Interlaken

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