2009 FINANCIAL MARKET INTEGRITY INDEX

SWITZERLAND

CFA INSTITUTE
Centre for Financial Market Integrity

CFA Charterholders and Professional Integrity

CFA Institute is the not-for-profit, professional association of 95,000 financial analysts, portfolio managers, and other investment professionals in 131 countries, of whom 85,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute Centre for Financial Market Integrity is the research, policy, and advocacy arm of CFA Institute.

The CFA designation is widely recognized as the designation of professional excellence within the global investment community. CFA charterholders must pass three rigorous examinations that test their understanding of a number of financial disciplines, including ethics and professional standards, and must complete several years of qualifying financial work experience to earn the charter. To retain the designation, CFA charterholders also must annually renew their pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

In 2002, when CFA Institute and the United Kingdom Society of Investment Professionals partnered, UKSIP members were adopted into CFA Institute and holders of the corresponding FSIP and ASIP designations were accepted into CFA Institute membership based on the comparable level of rigour needed to obtain these designations. Although all CFA Institute members adhere to an ethical standard, only CFA, FSIP, and ASIP designees also have displayed a level of mastery in investment principles. Therefore, this research does not include responses from all CFA Institute members but, rather, only from those who are active members with CFA, FSIP, or ASIP designations; all will be referred to collectively as "CFA charterholders" throughout this report.

ISBN 978-0-938367-17-8

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Introduction
Concept of an FMI Index

The Financial Market Integrity Index (the FMI Index) was developed by the CFA Institute Centre for Financial Market Integrity (the CFA Institute Centre) to gauge the perceptions investment professionals have about the state of ethics and integrity in six major financial services markets and how these perceptions evolve over time. Specifically, the index measures the level of integrity that investment practitioners experience in their respective markets—Canada, Hong Kong, Japan, Switzerland, the United Kingdom, or the United States—and the practitioners' beliefs in the effectiveness of regulation and investor protections to promote such integrity. This pragmatic input from working investment professionals will help raise awareness of leading issues in the capital markets and will inform the work of the CFA Institute Centre in conducting regulatory outreach and developing enhanced professional standards.

The Financial Market Integrity Index was developed to gauge the perceptions investment professionals have about the state of ethics and integrity in financial services markets.

The FMI Index is distinguished from other market surveys and is proprietary in that it capitalizes on our exclusive access to seek the opinion and perspective of the CFA Institute membership (see inside cover for details). CFA charterholders are investment professionals who have earned the CFA designation and are required to adhere to a stringent code of ethics. The informed opinion of this particular respondent group offers valuable insight into the current state of ethical practices and standards in select global markets and will help to inform regulators and other financial industry thought leaders concerning potential areas for improving the investment profession.

The CFA Institute Centre provides this report to advance the cause of ethics and integrity in financial markets.

The CFA Institute Centre provides this report on the findings of the survey (the Report) to advance the cause of ethics and integrity in financial markets through the views and opinions of trained investment professionals so as to:

- Inform investors and regulators of the perceived ethics and integrity of practitioners and the effectiveness of regulatory systems in the market;
- Encourage investors to consider whether they are likely to be treated fairly and ethically if they invest in the market;
- Help assess whether a particular country or market has specific integrity issues that need to be addressed by regulators; and
- Inform practitioners in the market about how others perceive their actions and honesty, in general, and to stimulate remedial actions on their part where appropriate.

Each FMI Index Report measures the sentiments expressed by a cross section of survey respondents concerning ethical standards and investor protections of a particular market. The ratings discussed in this Report represent the opinions of a distinct group of professionals, CFA charterholders, responding to a series of questions about their experiences with practitioners, regulations, and investor protections in Switzerland. This survey was specifically designed to gather the perceptions of only the Swiss market. Because respondent populations differ significantly between markets, we believe it will be more valid and informative to assess each country's report independently of the others rather than to try to make cross-country comparisons.

About the FMI Index Methodology

The FMI Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity.

The CFA Institute Centre, in consultation with Harris Interactive, developed the FMI Index to specifically reflect the perspectives and opinions of investment professionals identified as being committed to the highest level of professional ethics. CFA charterholders and holders of the ASIP and FSIP designations were asked to evaluate and rate a number of financial "market participants," including sell-side analysts, hedge fund managers, board members, and others as well as "market systems," such as market regulation and investor protections, including corporate governance, shareowner rights, and transparency. The questions relate to how market participants and market systems contribute to financial market integrity (see **Figure 1**). Respondents were asked to answer a number of questions that rate on a five-point scale the ethical behaviour of these market participants and systems.[1]

FMI Index Questions and Rating Scales

Please rate the overall ethical behaviour exhibited by the following groups in Switzerland.

1 Not Ethical at All	2 Slightly Ethical	3 Somewhat Ethical	4 Very Ethical	5 Completely Ethical

For each of the following, please rate the overall effectiveness of market systems for ensuring market integrity in Switzerland.

1 Not Effective at All	2 Slightly Effective	3 Somewhat Effective	4 Very Effective	5 Completely Effective

Figure 1

The ethical behaviour of market participants and the effectiveness of market systems were the two dimensions of evaluation that produced the final FMI rating.

More than 2,000 professionals in six countries who hold the CFA, FSIP, or ASIP designations participated in the research for the 2009 FMI Index by taking the survey either online or by scripted telephone interview between 26 February and 13 March 2009.

To provide the most statistically reliable opinions, this Report will use in-market ratings when referring to an index rating or score, unless otherwise noted.[2] Out-of-market ratings will be used for discussion and comparisons only where noted because these results are statistically less significant as a result of smaller sample sizes.

The FMI Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity. Data gathered during phone interviews were adjusted to align them with online responses so that all responses could be accurately integrated into one pool of responses. For more comprehensive information regarding the overall FMI Index methodology, please refer to the separate report available on the CFA Institute Centre's website at www.cfainstitute.org/centre.

This is an opinion-based survey, and CFA Institute makes no representations concerning accuracy or otherwise warrants use of the FMI Index for any purpose by readers.

[1] One question dealing with severity of unethical behaviour or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the FMI rating.

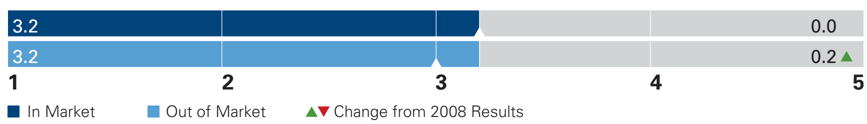
[2] In this Report, in-market ratings are those from respondents inside Switzerland and out-of-market ratings are those given by respondents outside Switzerland.

Executive Summary

Figure 2

In 2009, in-market respondents gave the Swiss markets the same overall FMI rating (3.2) as they did in 2008.

FMI Index 2009 Switzerland



Switzerland's overall FMI Index rating did not change in 2009, holding steady at 3.2. As suggested by these results, charterholders maintain a high regard for the integrity of the Swiss markets. Both the relatively strong stance taken by the Swiss National Bank (SNB) in easing credit conditions and the strong economic platform underpinning the Swiss economy surely contributed to respondents' favourable perception of the Swiss market.

By the end of 2008, virtually every nation was experiencing the crisis that slammed into global financial and investment markets. Switzerland was no exception. Although affected by slowing exports, reduced investment, poor consumer and investor sentiment, and decreased tax revenues as the major Swiss financial companies posted unprecedented losses, Switzerland still sustained a relatively robust domestic economy through the majority of 2008.

In the minds of many investors, however—as FMI Index respondent comments confirm—2008 may mark the beginning of the end of Swiss bank secrecy law as the world knows it. During the year, perhaps driven by the global financial crisis, a worldwide effort to identify and challenge tax havens emerged, and it particularly targeted Switzerland. In a nod to the seriousness of the endeavour—which is being led by the United States, France, and Germany—the Swiss government is exploring the possibility of decoupling tax evasion and bank secrecy law, lowering the contribution to bank revenues made by off-shore activities, and creating new on-shore ventures that will reconfigure traditional revenue structures. Respondents who commented on Switzerland as a tax haven were divided in their opinions about the situation and about possible changes to the market.

The high-profile case of Ponzi scheme operator Bernard Madoff, the subject of major news coverage during the administration of the FMI Index survey, also seems to have resonated with survey respondents in Switzerland. Although Madoff's operation was based in the United States, as details of the scandal emerged, it became clear that there were many victims in Switzerland, among them Geneva-based Union Bancaire Privée, whose estimated overall exposure to the Madoff scandal is said to exceed CHF1 billion.

Conclusions

The issue of **retrocessions** garnered considerable comment again in 2009.

- The overall FMI Index rating for the Swiss market in 2009 is 3.2, unchanged from the results of the 2008 survey. At just above the midpoint of the five-point rating scale, however, a 3.2 rating suggests that the Swiss market still has room for improvement.

- Based only on their perceptions of the integrity of the nation's financial professionals and systems, in-market and out-of-market respondents disagreed again in 2009 as they did in 2008 about how likely they were to invest in Switzerland: 79 percent of Swiss respondents and only 40 percent of those outside Switzerland said they would be likely or very likely to invest in the country. Both groups of respondents, however, were slightly less willing to invest in Switzerland in 2009 than they were in 2008.

- Respondents' open-ended comments highlighted two main areas of concern: the lack of transparency, primarily in the Swiss financial industry, and conflicts of interest between advisers and their clients encouraged by misaligned incentive structures. In 2009 as in 2008 the issue of retrocessions or rebates garnered considerable comment from survey respondents as well.

- Respondents generally gave Swiss financial professionals—in particular, pension fund managers, mutual fund managers, and buy-side analysts—higher marks than they gave the various components of the Swiss financial system.

- In 2009, out-of-market respondents were slightly more positive than they were in 2008 about both the ethical behaviour of investment professionals and financial market systems in Switzerland.

[3] A market's overall rating is composed of the 10 factors that make up the financial professionals rating and the 7 factors that make up the market systems rating. The final, overall rating for this market was created by taking the average rating or score from two sets of questions. The first question set contained 10 equally weighted components from a set of questions pertaining to investment professionals (i.e., market participants). The second question set contained 7 equally weighted components of questions pertaining to the effectiveness of capital market systems in ensuring market integrity. These two sets of questions were averaged as a set, and then each set carried equal weighting in the final determination of the FMI Index rating for this market.

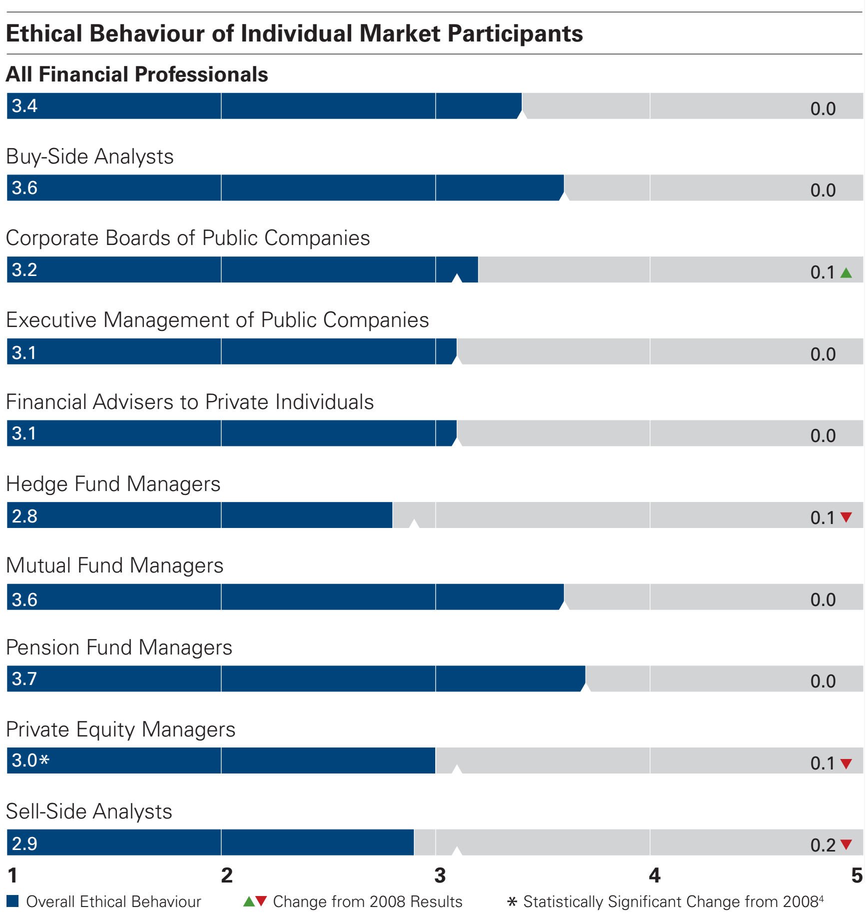
Key Findings
Ethical Behaviour of Individuals

The first group of FMI Index questions asked respondents their opinions concerning the ethical behaviour exhibited by various financial professionals—also referred to as "market participants"—in the market over the past year. As demonstrated in **Figure 3**, all financial professionals, overall, received an above-average rating of 3.4. This rating is not simply an average of the nine ratings linked to the ethical behaviour of specific professions but was asked separately as a control question. (The *average* of the ratings of the nine professions is 3.2.)

In 2009, the ratings concerning the ethical behaviour of financial

Figure 3

Respondents were asked to rate the ethical behaviour of financial professionals as a whole as well as the ethical behaviour of specific financial professionals.



professionals stayed roughly the same as well, with only slight changes in those ratings that did show any movement.

Corporate boards of public companies were not universally applauded, however; a number of respondents called some Swiss boards to task for their lack of independence and for perpetuating an environment that puts the financial interests of executives and board members ahead of shareholder interests.

“

Corporate control of large companies has generally failed due to the lack of adequate supervision through boards of directors.

— Survey Respondent

”

“

Boards of Swiss companies consist mostly of management of other companies, resulting in “cross-oversight.” Accordingly, boards sometimes don’t act in the best interest of shareholders and dole out outrageous salaries.

— Survey Respondent

”

Pension fund managers were the most highly rated profession, ranked at 3.7, followed closely by buy-side analysts and mutual fund managers, which both received a rating of 3.6. As happened in 2008, the lowest rating (2.8) went to hedge fund managers in 2009.

Buy-side analysts, mutual fund managers, and pension fund managers rated more highly—3.6, 3.6, and 3.7, respectively—than the overall rating (3.4) of all Swiss financial professionals in both 2008 and 2009.

In their open-ended comments regarding the behaviour of Swiss

[4] For these purposes, a 95 percent confidence level means that if we were to replicate this study 100 times, we can be confident that 95 out of 100 times the differences between the two groups would be different from zero. There is still a chance that in five of those 100 replicated studies, there is no significant differences between those two groups. Five percent represents the level of uncertainty that a surveyor is willing to accept when conducting a study with a limited number of respondents.

Ethical Behaviour of Individuals
(continued)

“

I have the feeling that individual investors have to take into account that most of the banks only want to make profit for themselves—meaning that the customer does not come first but the bank itself does. This is true not only for Switzerland but also for the rest of the world.

— Survey Respondent

”

market participants, respondents were most vocal about a range of perceived conflicts of interest (30 comments). Topics raised include the practice of retrocessions, or rebates to advisers, associated with certain financial products; incentives that some investors claim encourage financial advisers and private client managers to value personal remuneration and/or an employer's revenue goals over achieving the optimal risk–return trade-off for clients; and executives and board members who are motivated to place their financial well-being ahead of their shareholders' interests.

“

Private banking sales forces often sell products based on kickbacks and not based on [knowledge] of the individual client's needs.

— Survey Respondent

”

> *"The client can't expect neutral advice because there are too many conflicts of interest; maybe the client comes at the end but does not come first."*
>
> — Survey Respondent

Boards and advisers were just about equally criticized, garnering 24 and 22 comments, respectively. Boards were charged with operating within a cosy, often conflicted, web of relationships spanning multiple company affiliations. As products of such a close-knit community, boards were viewed as often lacking the independence necessary to ensure that management maintains transparency in its dealings with clients and shareholders. As mentioned previously, advisers were viewed as succumbing to conflicts of interest because of poor regulation, employer incentive structures, and/or product rebates that negatively affected client goals.

Some respondents called for the incentive structures of financial companies to be realigned to better support client goals. The concerns that respondents raised about conflicts of interest are not unique to the Swiss market but are mentioned more specifically in Switzerland than in any other market in this year's survey. This sentiment is perhaps a holdover from the traditional Swiss dominance in private client management, which was perceived to have placed other private client concerns above risk-adjusted performance. The open-ended commentary accompanying the 2008 survey was quite similar to these results; adviser and incentive-structure conflicts of interest were top of mind for Swiss respondents in 2008 as well.

Effectiveness of Regulatory and Investor Protections

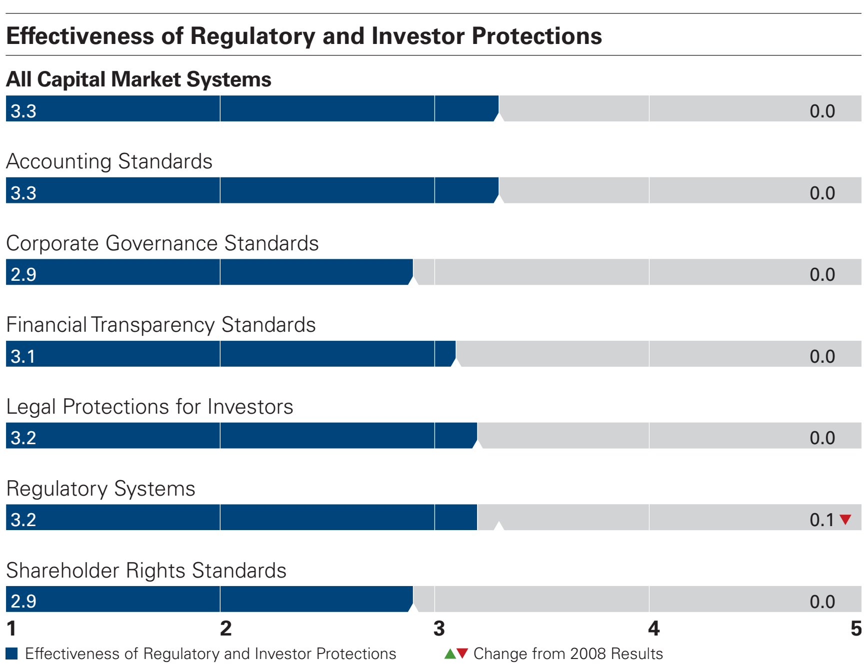
The second group of FMI Index questions asked the respondents their opinions concerning the effectiveness of regulatory and investor protections in the market (referred to as "market systems") over the past year. In both 2009 and 2008, the average rating for the control question seeking respondents' overall perceptions of all capital market systems was 3.3. This control question rating was somewhat higher than the *average* rating of 3.1 earned by the group; see **Figure 4**.

Of the six components of market systems rated, accounting standards was the most positively viewed component, earning a rating of 3.3. Corporate governance and shareholder rights were the lowest-ranked components in 2008 and 2009, both earning just below an "average" rating, at 2.9.

The subject of 45 comments (the highest number of comments on a single issue in the Swiss market in 2009), transparency was by far the issue of greatest concern for survey respondents. Transparency issues drew considerable attention from Swiss respondents in 2008 as well. Comments on the opacity of Swiss

Figure 4

Respondents were asked to rate the overall effectiveness of capital market systems as a whole as well as the effectiveness of specific systems and standards.



> *Switzerland has very high ethical standards. If you want to detect any money laundering [coming through] a bank in Switzerland, they will know the person it belongs to. For example, if [someone tries to place] criminal money [with] a bank in Switzerland, it will not work because of the high ethical standards.*
>
> — Survey Respondent

financial institutions touched on many areas, including advisory fee and commission structures, investor protections, prevalence of black-box structured products, bank and insurance company balance sheets, and corporate governance–related issues. Referring specifically to the recent U.S. tax evasion probe that caused UBS to disclose the names of certain clients in addition to paying a substantial fine, a number of respondents commented on Swiss bank secrecy laws as an area of concern. Respondents came down on both sides of the issue, some claiming that the days of bank secrecy should

> *It has to do with the whole issue of banking secrecy because it's one of the pillars of this country's financial system. People can bring money here and not tell anyone else about it, and now that's being attacked. So, it is an ethical issue whether or not it is ethical to manage somebody's money knowing they are not paying taxes on it.*
>
> — Survey Respondent

Effectiveness of Regulatory and Investor Protections
(continued)

“*There is almost no enforcement of shareholder rights and insider trading.*

— Survey Respondent”

be over and others arguing that the current laws and regulations governing bank secrecy are adequate.

Respondents also expressed concerns about shareholder rights standards (27 comments). The interests of minority shareholders are seen as sometimes being secondary to the interests of majority shareholders, corporate management, and boards, which is particularly troubling given that the latter groups are charged with upholding the rights of all shareholders. Neither regulation nor corporate governance measures were perceived by those commenting to be sufficient protections of minority shareholder interests.

Respondents also were asked two subquestions about capital market systems to further illuminate some of the reasoning behind the individual scores given to the various market system components. These subquestions do not figure in the final calculation of ratings.

The first subquestion asked about the effectiveness of capital market regulation policies themselves. Specifically, we sought respondents' perceptions of whether the regulations and investor protections available in the market represent industry standard or best practice and if implemented correctly, whether those market systems would offer a solid framework for investor rights. Respondents rated these regulations and policies an average rating of 3.0 out of 5, nearly the same rating they gave regulatory policies in 2008 (3.1).

The second subquestion focused on the effectiveness of implementation or enforcement of such regulations and policies. Respondents appeared more concerned about the enforcement of regulation in Switzerland than they were about the nature of the regulation itself, giving this issue a score of 2.7 in 2009. In 2008, survey respondents rated the same question at 3.1. Clearly, respondents view the enforcement of regulatory policies as increasingly less effective and consider it a growing area of concern.

> *"Shareholder rights: shareholders must have more power over management and board decisions."*
>
> — Survey Respondent

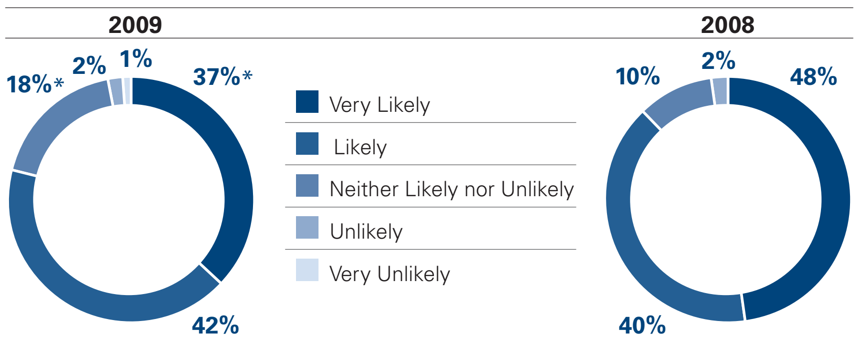
Willingness to Invest in Switzerland

Switzerland suffered along with other developed capital markets in 2008 from deteriorating asset values, withdrawal of investment interest, and tight credit conditions. But judging by the 2009 survey results, Switzerland may have suffered somewhat less: There was little decline in investors' willingness to invest in the market, whereas other markets experienced steeper drops in investor confidence. The tumultuous conditions under which all investment professionals and companies operated in 2008 appear to have only mildly diminished the attractiveness of the Swiss market.

Based solely on the ethical behaviour of market participants and the effectiveness of capital market systems, 79 percent of in-market respondents stated they would be likely or very likely to recommend investing in Switzerland; see **Figure 5**. This response differs dramatically from that of out-of-market respondents, of whom only 40 percent said they would be likely or very likely to recommend the nation's markets to

Figure 5

Likelihood of in-market respondents to recommend investing in Switzerland based solely on the ethical behaviour of market participants and the effectiveness of capital market systems.



Based Solely on Ethical Behaviour and Capital Market Systems, Would You Recommend Investing in Switzerland?

* Statistically Significant Change from 2008

NOTE: Percentages may not total 100 percent because of rounding other investors. A similar divergence of opinion was evident in the 2008 survey. Last year's responses from both inside and outside Switzerland (88 percent and 46 percent, respectively) demonstrated a general decrease in investor confidence, although it was relatively modest in contrast to results in some other markets.

Regardless of that slight decrease—a drop of about 5 percent of in-market respondents who are likely or very likely to invest in Switzerland—Switzerland remains the highest rated of the six countries surveyed in terms of respondents' willingness to invest or recommend that others invest in the country. We will track responses to the same question in future FMI Index surveys to determine if there is a downward trend developing or if the 2009 numbers are merely a slight blip caused by the down market.

Other Key Survey Considerations

In-Market vs. Out-of-Market Perceptions

For purposes of this FMI Index, charterholders from five other markets we surveyed (Canada, Hong Kong, Japan, the United States, and the United Kingdom) were given the opportunity to rate and comment on both their own and the Swiss market. (Survey respondents were given the option to skip questions pertaining to any market about which they did not think they were knowledgeable.)

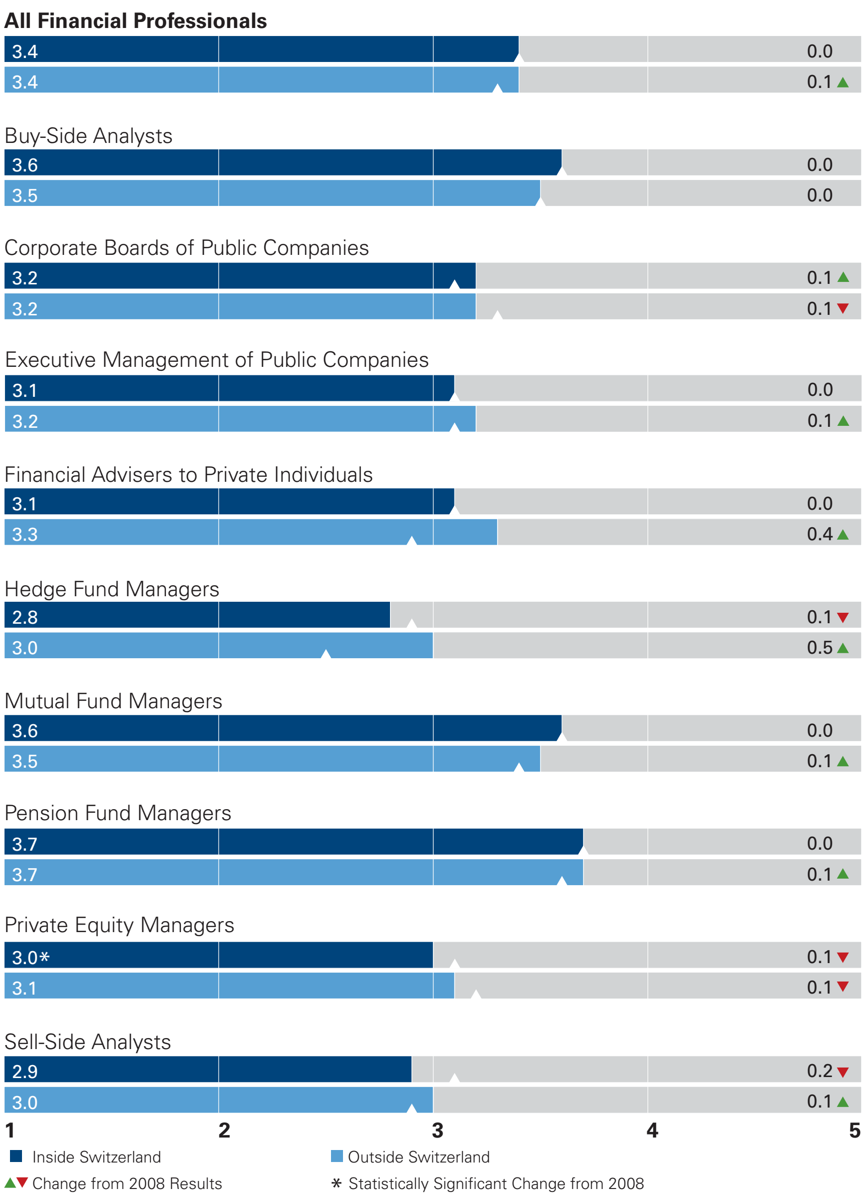
The integrity of market participants in Switzerland was judged of equal calibre by respondents both inside and outside the country, above the midrange at a ranking of 3.4 (see **Figure 6**). There were some differences between in- and out-of-market respondents' perceptions, however, of certain professions and systems, as demonstrated in Figure 6 and **Figure 7**. Those outside Switzerland appear to hold financial advisers, private equity managers, hedge fund managers, and executives—along with standards for corporate governance and shareholder rights—in slightly higher regard than do those inside Switzerland.

The greatest disparity between the perceptions of respondents inside and outside Switzerland has to do with the integrity of financial advisers and hedge fund managers, although even those differences are relatively minor. Minimal differences were noted in most other professions as well.

Those inside and outside Switzerland were essentially in agreement with the ratings they assigned to both the market system overall and to its component parts, although out-of-market respondents rated standards for corporate governance a bit more favourably than did in-market respondents, by a margin of 0.3 points.

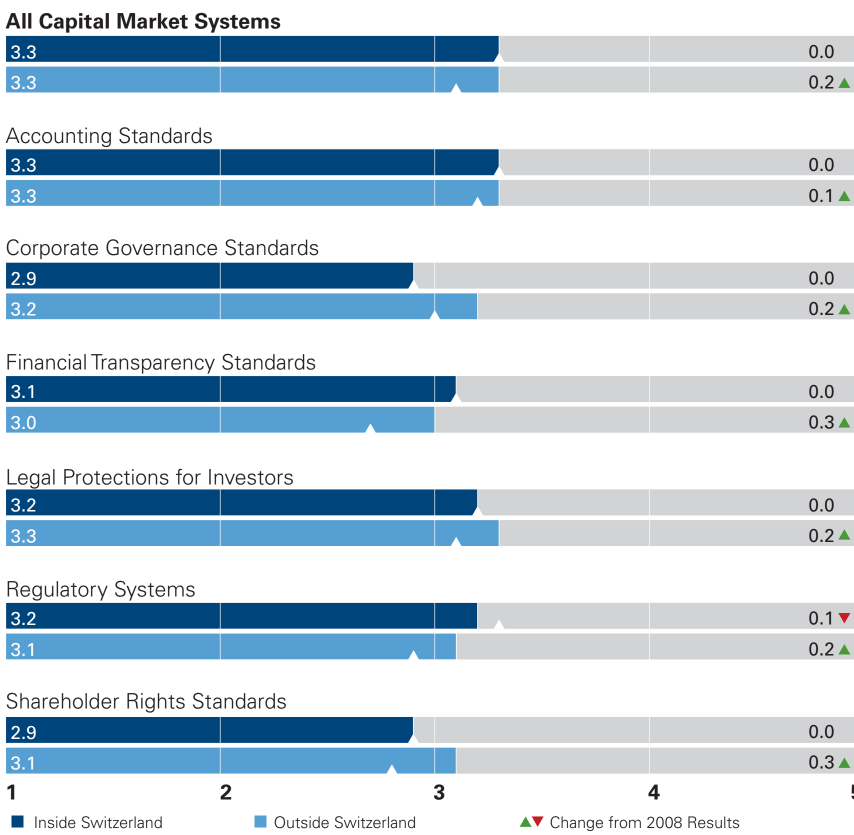
Ethical Behaviour of Individual Market Participants

Figure 6



In-Market vs. Out-of-Market Perceptions
(continued)

Figure 7 **Effectiveness of Regulatory and Investor Protections**



A more favourable perception of the ethical behaviour of investment professionals and the effectiveness of some market systems accounts for the slight improvement from 2008 to 2009 in non-Swiss respondents' ratings of the market.

And given the chaotic markets and global financial crisis of 2008, this affirmation of faith in Switzerland is particularly noteworthy. The jump in the rating for financial advisers from 2.9 in 2008 to 3.3 in 2009 and the half-point rating improvement in perceptions of hedge fund managers—from 2.5 in 2008 to 3.0 in 2009—show steady confidence in the integrity of those Swiss professionals.

From 2008 to 2009, the financial transparency and shareowner rights components earned the greatest increase in ratings out of all capital market system components, with each experiencing an increase of 0.3 points.

Comments of Survey Respondents

More than 250 respondents offered comments to expand on their opinions about the current state of financial market integrity in Switzerland. Respondents were given opportunities in connection with several of the survey questions to provide written comments about their thoughts and concerns. In particular, additional comments were solicited in the survey section concerning individual market participants and again after questions concerning market systems. At the completion of the survey, respondents also were asked what additional or specific issues investors should be concerned about and for any other comments.

More than 300 substantive comments were received; those responding with "no answer" or "nothing to add" types of remarks were excluded.

The various responses were examined and then categorized based on the concerns addressed in each comment (e.g., corporate governance, transparency, fraud). The key areas of comment and the topics raised most often are highlighted in **Figure 8**. In instances where an individual raised more than one concern, each separate concern was identified and counted.

Figure 8

Survey respondents commented most about transparency, conflicts of interest, and shareholder rights.

Issues Raised Most Frequently

Transparency	**45** comments
Conflicts of Interest	**30** comments
Shareholder Rights	**27** comments
Regulation	**25** comments
Corporate Boards	**24** comments
Financial Advisers	**22** comments

Transparency

Bank secrecy was mentioned frequently within the general area of transparency concerns; approximately one-third of transparency-related comments addressed this topic. Clearly, the U.S. probe of UBS and the recent G–20 statement naming Switzerland among targeted tax havens raised the profile of this issue with respondents.

Other areas of the Swiss market that respondents perceive to be less than transparent include financial reporting, structured products, advisory fees, and corporate governance. Respondents asserted that the low level of transparency in such areas could be improved if banks and financial firms would adhere to generally accepted reporting standards, move away from the frequent use of structured products, provide straightforward fee structures to clients, and reduce incentives that encourage executives and boards to place their own interests ahead of the interests of shareholders and clients.

“*Swiss banks are too secretive and too enamoured with structured products.*”

— Survey Respondent

Conflicts of Interest

The second most common topic raised in Swiss respondents' comments was conflicts of interest in the financial markets. The majority of comments focused on the incentives of employer compensation structures, including retrocessions on financial products (in particular, structured products) that may encourage financial advisers to give inadequate advice and portfolio management service to clients. According to respondents, in many instances the warning of "buyer beware" correctly characterizes the operating environment at Swiss banks and advisory firms. A number of respondents believe that financial advisers' incentives are more closely aligned with their employers' bottom lines than with their clients' bottom lines.

“*Financial institutions in Switzerland are (naturally) driven by a profit motive. The regulators are trying to do the right thing, but the financial services industry is always one step ahead of them.*”

— Survey Respondent

Comments of Survey Respondents
(continued)

Shareholder Rights

Almost all comments on the topic of shareholder rights revolved around the negligible rights afforded to minority shareholders by boards because those boards were perceived to be insufficiently independent from the management of the companies they serve. Shareholder rights were also perceived to be violated by the inadequate reporting of company management and the opacity of corporate decision making. Among several suggestions made to address this issue were calls to increase the regulation of board practices and board member service guidelines and to enhance regulation that supports and enforces shareholder rights.

“*In an integrated Europe…, it is now very easy to arbitrage the regulators.*

— Survey Respondent”

“*Shareholder protection is the most important issue, along with the regulatory framework protecting minority shareholders, especially with regard to their voting power.*

— Survey Respondent”

Regulation

Comments pertaining to regulation were the most contradictory of all comments received. Some respondents favour more regulation—particularly of credit derivative swaps and structured products—and others favour less. Some believe Switzerland’s regulatory system needs to conform to a European standard; others are pleased with the operation of the Swiss Financial Market Supervisory Authority (FINMA). Here again reference was made to UBS and its dominance in the headlines, with one respondent asserting that the future perception of Swiss regulators will depend on how they deal with the problems plaguing UBS.

Respondent comments suggest a conclusion that weak or inconsistent regulation and regulatory enforcement allow a level of unethical behaviour that a strong or standardized regulatory framework would not. Certainly, Swiss regulation is an area of serious concern to respondents, but unlike those in other markets where survey results showed regulation to be a top concern, Swiss respondents do not consider it to be quite as detrimental to the effectiveness of capital markets.

Corporate Boards

I think a lot of board management teams are not working for the shareholder.

— Survey Respondent

The lack of independence of directors that results from the practice of staffing private Swiss companies' boards—drawing from a small pool of active board members and installing the same members on multiple high-profile boards—is a primary concern for Swiss respondents. Some commentary noted that this arrangement encourages boards to inappropriately support management's payment of large bonuses to themselves and to board members. Clearly, investment professionals in Switzerland are concerned about the integrity of board members and their willingness to uphold the rights of minority shareholders and clients.

Financial Advisers

Many survey respondents seriously questioned the general level of integrity and/or the competency of Swiss financial advisers. Most who responded on this topic found fault with advisers who put their own personal financial and career interests ahead of their clients' risk-adjusted performance. Others claimed a lack of competence was to blame for inadequate investment guidance, often citing the heavy use of complex structured products in client portfolios.

The incentives that client relationship managers have…[mean they sometimes] sell structured products or certain types of products…[but] they need to think more about the needs of the client, explaining better the risk profile return [on] what they sell rather than concentrating on selling the product.

— Survey Respondent

In addition to incentive structures that do not serve clients well, respondents pointed to inadequate regulation governing the actions of advisers. Weak investor protections often mean that clients are holding riskier assets than their risk–return profile indicates is appropriate.

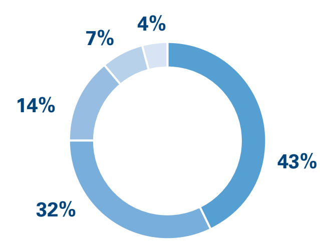
Demographics

The following figures indicate some of the key demographic information about the respondent base (please see complete methodology report at www.cfainstitute.org/centre for further details).

Overview of Out-of-Market Respondents

Market

43%	United States
32%	United Kingdom
14%	Canada
7%	Hong Kong
4%	Japan



Respondent Profiles for Swiss Market

In Market (293 respondents)		Out of Market (56 respondents)
Buy/Sell Side		
53%	Buy Side	45%
10%	Sell Side	13%
8%	Both	11%
29%	Neither	32%
Client Asset Base		
27%	Institutional Entities	36%
35%	Private Individuals	29%
16%	Equal Institutional and Private Clients	9%
22%	Not Involved in Asset Management	27%
Institutional Asset Client Type		
23%	Bank/Investment Bank	24%
2%	Endowment/Foundation	8%
4%	External Corporation	4%
2%	Government/Municipal Entity	4%
12%	Hedge Fund	4%
4%	Insurance Company	16%
1%	Internal Corporate/Proprietary	0%
15%	Mutual Fund/Investment Company	8%
36%	Pension Fund	32%
1%	Private Equity Fund	0%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category

Respondent Profiles for Swiss Market (continued)

In Market (293 respondents) | Out of Market (56 respondents)

Assets Under Management

In Market		Out of Market
10%	Less than US$250 Million	21%
8%	US$250 Million to Less than US$1 Billion	8%
14%	US$1 Billion to Less than US$5 Billion	13%
13%	US$5 Billion to Less than US$20 Billion	21%
10%	US$20 Billion to Less than US$50 Billion	5%
20%	US$50 Billion to Less than US$250 Billion	11%
24%	More than US$250 Billion	21%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category

Years in the Investment Industry

In Market		Out of Market
11%	5 Years or Less	10%
64%	6 to 15 Years	55%
24%	16 to 30 Years	27%
0%	31 Years or More	8%

Primary Job Function

In Market		Out of Market
1%	Academic	4%
1%	Accountant/Auditor	0%
1%	Analyst (General)	0%
1%	Broker	0%
9%	Executive (e.g. CEO, CFO, CIO, COO, CMO, etc.)	7%
5%	Consultant	2%
2%	Corporate Financial Analyst	4%
2%	Credit Analyst	4%
1%	Director (General)	0%
1%	Economist	0%
11%	Financial Adviser	2%
3%	Investment Banking Analyst/Banker	4%
0%	Manager (General)	2%
3%	Manager of Managers	2%
1%	Performance Measurement Specialist (GIPS)	4%
22%	Portfolio Manager	36%
8%	Private Banker	2%
5%	Relationship Manager, Sales, Marketing	11%
9%	Research Analyst	5%
6%	Risk Manager	5%
1%	Strategist	4%
1%	Treasurer	0%
0%	Trader	2%
2%	Other	2%

NOTE: Percentages may not total 100 percent because of rounding

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