The new editorial team of CFA Society Switzerland is delighted to be able to take on the job of producing this newsletter. Every month, we will aim at bringing you a variety of topics and news.

In The Charter, Society Members and Friends will find everything from forthcoming events by CFA Institute and our local Society to insightful reviews of past events. Watch out for important announcements and Save the Dates. Regulatory developments will be brought to your attention. Developments in the Swiss financial markets and industries will be presented and discussed, as well as other topics of general interest for the financial world and our industries.

In this issue, you will find information regarding CFA Society Switzerland “Swiss Pensions Conference” of June 8, a comprehensive review of our very interesting conference on April 21 on the challenges posed by the new norm of zero or negative interest rates (see Hot Topic), an invitation to participate in the annual Swiss Asset Management Survey by SFI and zeb, an interview about the second Swiss Circle gathering within the CFA Annual Conference 2015 that took place in Frankfurt, and other topics.

As a final note, we would be pleased to receive ideas and also contributions to the Newsletter from our readership. Feel more than free to put them forward! Constructive feedback and topics that you would like to see discussed in The Charter are also welcome. You can always contact us under editors@cfaswitzerland.org.

Enjoy your reading!

The Charter editorial team *

* Alison Arthurs, CFA, Frederique Haftman, and Leonor Vereda, CFA
CFA Society Switzerland "Swiss Pensions Conference 2015"
took place on June 8 in Rüschlikon

The Swiss Pension Conference 2015 focused on the important challenges faced by Swiss pension funds under the new regime of negative interest rates – and attracted a large crowds of industry insiders. With the theme Responsibility in Crisis, presentations and discussions focused on current practice and relevant aspects in long-term investment thinking among Swiss pension funds.

How to invest in a responsible manner in an environment of negative interest rates? Are dynamic adjustments necessary to investment strategies? How will investments manage to produce the expected returns? Should pension funds take new risks on? What opportunities remain for them out there? How to discuss potential deficits with affected stakeholders? Is responsibility itself facing a crisis?

Designed as a private forum for decision makers and their mandated advisors in the pensions environment, the conference was aimed at contributing to establish the CFA designation as a seal of quality in the Swiss pensions industry.

Find out more about the agenda and speakers here http://www.cfalive.ch/spc15/about/.

Monday 8 June 2015, Swiss Re Centre for Global Dialogue in Rüschlikon.

News from FINMA

Entry into force of the partially revised Ordinance on the Supervision of Private Insurance Companies. On 25 March 2015, the Federal Council decided to bring the partially revised Insurance Supervision Ordinance (teilrevidierte Aufsichtsverordnung, AVO) into force on 1 July 2015. This will result in changes in the supervision of private insurance companies and of insurance groups and conglomerates.

http://www.finma.ch/e/aktuell/Pages/aktuell-VO-beaufsichtigte-versicherungen-20150427.aspx
Hot Topic
The rules of the game have changed - PIRP, ZIRP or NIRP?

It seems we have now entered into a world in which zero and even negative interest rates are becoming the new ‘normal.’ But this new world raises many questions and introduces new complexities and uncertainties for investors. On April 21st the attendees at CFA Switzerland’s event “The rules of the game have changed – PIRP, ZIRP or NIRP?” were treated to an evening of insightful presentations and lively discussion in order to shed some light on some of these unknowns. Presentations were made by Dr. Nannette Hechler-Fayd’herbe, Head of Investment Strategy at Credit Suisse Private Banking & Wealth Management, Marco Bagutti CFA, Chief Investment Officer at Stiftung Auffanginrichtung BVG, and Franklin Meimoun, Head of Group Treasury at Union Bancaire Privée, Geneva while the closing panel discussion was moderated by Christoph Schenk CFA, Chief Investment Officer of Zürcher Kantonalbank. In the following, we summarize the highlights of the new regime’s effects on the economy, pension funds, and banks’ treasuries.

Negative yields on short maturity bonds are a reality that is widespread across Europe. And at home here in Switzerland, the majority of the government bond market is now negative yielding. Despite the efforts of the SNB, the Swiss Franc (CHF) remains overvalued which has lead to a tightening of monetary conditions. Retail sales and exports have been weakening. However the key economic factor to watch going forward is how deflationary this tightening of monetary conditions may become. In the Swiss Capital Markets the yield curve has re-steepened meaning long-dated bonds may actually look relatively ‘attractive’! A further observation is that we have seen a growing number of new issuers coming to the market and a lengthening of the average duration of the bond market. These are seemingly consequences of the attractive CHF funding conditions. Foreign buyers have not been dissuaded from purchasing low yielding high quality CHF bonds however given the negative Cross-Currency Basis Swap between the CHF and, in particular, the USD. The all-in yield in buying the CHF-denominated bond and then swapping the currency back to USD compares favourably to similar high quality USD paper.

When taking a look at how the Swiss pensions sector is coping in this environment, it becomes apparent that it is facing some big challenges. One major problem is how to hold cash without suffering charges. It has been observed generally that the demand for the CHF 1000 note has been steadily increasing which could be a sign of greater cash hoarding. But when considering the costs associated with physical storage and insurance, logistical complexities and fears of fees being introduced by banks on the re-deposit of these funds – this appears to be neither a costless nor a realistic solution. Other challenges include deciding whether it is appropriate to increase portfolio risk as a means to bolster asset returns. Some of the alternatives for increasing risk include lowering the credit quality of the portfolio, allocating to equities (public and private), high yield debt, alternatives, or real estate. Another strategy being considered as a means to generate returns is the granting of mortgages. The current environment allows the possibility to grant Libor-mortgages by lending at rates floored at 0% plus a spread of around 75-100bps which all-in compares favourably to negative deposit rates.

Overall, however, the options for coping with the negative interest rate environment for those pension funds not wanting to alter their risk tolerance or investment policy are hard to come by. With ever fewer ways for pension funds to generate future returns in this environment perhaps it is the current system as a whole that needs reviewing? How can pension funds be expected to continue to generate payments to pensioners tied to rates that were set in an environment of positive interest rates and inflation?

Continued …
The playing field for banks has also been distorted by the move to negative rates and removal of the CHF cap by the SNB. While domestic banks can hold CHF deposits at the SNB of up to 20 times their minimum reserves without paying deposit charges, foreign banks, not subject to SNB reserve requirements, are in fact penalised for their CHF cash holdings. The foreign banks will either be charged for depositing their CHF at their corresponding Swiss banks or have to pay to currency swap them away. Onshore/domestic banks also suffer from inequalities. The Universal and Retail banks generally do not have much excess cash due to their large mortgage lending books and so usually fall below the exemption threshold level and thus avoid paying for their deposits at the SNB. Private banks don’t benefit in this way and due to substantial CHF cash holdings find themselves above the exemption threshold and thus suffering the SNB’s deposit charges. As a result of this complex impact differential between banks, the interbank market has become fragmented with the overall TOIS quote masking the underlying variability.

Banks’ treasuries are also considering whether it is appropriate to increase risk. In addition to considering interest rate and credit risk, liquidity risk is also an option. In order to reduce their CHF balances at the SNB, banks with balances above the exemption threshold are lending in the Money Markets to banks falling below the exemption in addition to cantons and cities. The risks and potential impacts of these options must be carefully considered.

Depending on the individual bank, there may be treasury strategies to offset the impact of negative rates. Those Swiss private banks in the difficult position of holding substantial CHF denominated deposits are being forced to pass the costs along to their clients, while those banks with high non-CHF denominated deposits are better able to limit the amount of pass through. Another option for those banks holding substantial non-CHF deposits has been to profit from short term cross currency swaps.

In order to offset the impact from the removal of the CHF cap, some banks have opted to re-leverage their balance sheets by repoing their non-CHF bonds to take advantage of the arbitrage opportunity between the Money Markets and Currency Swap Markets. The fact that sight deposits at the SNB have increased seems to support that this profitable strategy has been widely used.

Today's reality is that the future holds many unknowns. Any signs of tightening of monetary policy by major central banks or a repricing from deflation to inflation pose a risk to the repricing of the Swiss bond market. A great deal of uncertainty remains around future potentially unforeseen action by the SNB. Investors are considering and pondering many possible scenarios such as an adjustment (lowering) of the threshold at which banks are charged on their deposits with the SNB, a shock increase (further negative) of the SNB deposit rate or even measures being put in place to prevent cash hoarding.

After much thought provoking discussion with plenty of audience engagement, attendees were invited to enjoy refreshments and some lighter conversation. If you would like more information about the event, you can watch videos from the event here and access a copy of the presentations here.

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**Membership renewal**

Remember to renew your 2015–16 CFA Institute and Society memberships by 15 July!

Follow these simple steps:

1. Log in to your account at [www.cfainstitute.org/renewnow](http://www.cfainstitute.org/renewnow).

2. File your Professional Conduct Statement.

3. Pay your CFA Institute and local society dues.
Swiss Finance Institute and zeb Consulting have launched the survey "Swiss Asset Management - On or Next to the Winners' Podium?" on the current and future state of the Asset Management industry in Switzerland.

The study differentiates its analysis across the various interest groups and asks participants about the current and mid-term stages of development of their specific company and of the Swiss Asset Management industry in general compared to competition outside Switzerland. The survey is based on the White Paper of 2012 by the SBA and the SFAMA aimed at further developing this industry.

It is addressed to investors, asset managers, regulatory and academic institutions, asset administrators and asset management consultants. It covers regulation and supervisory authorities, professional standards, market access, infrastructure, competence and education, investment solutions and instruments, financial benefits for asset management firms and investors, and branding.

CFA Society members are invited to participate and make their voice heard. Results will be published in November 2015.

Participants will receive attractive perks! Deadline to answer is 30 June.

Full press release [here](#). To access the survey click [here](#).

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**2015 Swiss FinTech Survey (deadline 30 June)**

FinTech meetup Zürich is an informal group of individuals interested in the development of FinTech in Switzerland. They are conducting research into the Swiss FinTech scene and future trends that could affect the Swiss Financial Centre.

Please take a few minutes to complete their [short survey](#) to help everyone better understand:

- who is in the Swiss FinTech community,
- views about key relevant issues,
- trends impacting the Swiss Financial Centre,
- challenges faced by Swiss companies
- opportunities to improve FinTech meetup Zürich

**Who should participate?**

Anyone connected to the community, whether located in Switzerland or abroad. Specifically, they are interested to hear from entrepreneurs, professionals, investors, regulators, students, academics, and others with a clear connection to the issues.

You can only take the survey once, but it is possible to edit responses until the survey closes on 30 June. A full report of the results will be released in July. All feedback will be treated with strict confidence, so be sure to use the comment boxes.
Upcoming events of note in June:

Speaker Series on Professional Development, 15 June, Zürich
Learn why the CFA designation could be useful in other industries.

The Intellectual History of Asset Allocation, 16 June, Geneva and 17 June, Zürich
Understand the intellectual foundations of the theory of asset allocation in order to escape its practical limitations.

ART Basel, 21 June, Basel
Art Basel stages world's premier Modern and Contemporary art shows. Find the details [here](#).

Check out the [Events Calendar](#) to stay on top of all upcoming events!

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The Swiss Circle – Do you know the Swiss Circle? - interviewed by Frederique Haftman

Discussion with Phillip Sundquist - Treasurer and Board Member of CFA Switzerland and Founding Member of the Swiss Circle

"Following the successful launch of the Swiss Circle at last year’s CFA Annual Conference in Seattle, the society hosted its second Swiss Circle meeting at this year's conference in Frankfurt.

The group met on Sunday just after the Welcome Reception and before the conference started, taking time to meet each other, speak in a friendly and relaxed atmosphere, and exchange views and ideas. It was important to offer Swiss delegates who numbered about 35 people the opportunity to gather given that the Frankfurt conference was big with over 1'200 participants. Most importantly, joining this informal group gave an excellent forum to network.

This year, the Swiss Circle gathered 18 people. It was open to anyone based in Switzerland who attended the annual conference -- charterholders, candidates and non members. The common denominator of this cohort is to have some link to Switzerland -- working or living in Switzerland or being Swiss.

The goal is to re-create a Swiss community during the annual conference and to share views on markets, Swiss business or the topics at the conference.

The main topics coming out of this year’s conference with their possible impact on the markets were:

- The ongoing situation with Greece and whether it would reach a resolution with the Troika. This topic had a special significance given that the conference was held in Germany.

- Geopolitical risks with Ukrainian, Syria...and if a stabilisation could be expected.

- The Central Bank monetary policy. The FED is expecting to increase its interest rates, but uncertainties are great due to the timing and a possible change in US policy. This is a major driver for markets.

The third Swiss Circle meeting will take place next year during the annual conference in Montreal with another large attendance expected.

Thank you Phillip for the discussion."