

2017

# Portfolio Management Guidelines

## Preamble

1. The Board of Directors of the Swiss Bankers Association has adopted these Guidelines in order to maintain and enhance the reputation and high quality of Swiss portfolio management in Switzerland as well as on an international level. Assets entrusted to Swiss banks for management must be managed professionally in the clients' best interest, even if the clients only give their banks general investment objectives.
2. The Guidelines are trade regulations (self-regulation) and have been recognised as a supervisory minimum standard. They have no direct bearing on the contractual relationship between banks and their clients. Such relationships are governed by the legal provisions (in particular by Art. 394 et seq. of the Swiss Code of Obligations) and by the relevant agreements between banks and clients (e.g. asset management agreement, the banks' general business conditions etc.).
3. In areas governed by specific legislation (e.g. OPA on pension funds, CISA on collective investments schemes, and the associated regulations or self-regulatory regimes), the relevant special provisions take precedence over these Guidelines.

## I. Principles

### Art. 1

<sup>1</sup> The asset management agreement enables the bank to carry out all transactions it considers necessary in the context of regular asset management by banks. The bank pursues its mandate in good faith and in consideration of the client's personal requirements that may reasonably be familiar to the bank. For this purpose, it draws up a risk profile that notes the client's risk appetite and risk capacity. The bank acts on a discretionary basis in line with its asset allocation policy, the client's investment objectives as determined with him/her, the applicable investment strategy and any instructions set out by the client (including any investment restrictions). The asset management agreement does not authorise the bank to withdraw assets.

<sup>2</sup> The asset management agreement or the appendices thereto must set out, amongst other things, the reference currency and the bank's remuneration (Art. 14-17 below).

### Implementing provisions

4. The bank draws up a risk profile that is in keeping with the client's risk appetite and risk capacity, while reflecting his/her financial situation, investment objectives, knowledge and experience. Based on this and taking account of any instructions from the client (see para. 9 below), the bank proposes an investment strategy that matches the client's risk profile.
5. When performing asset management mandates, the bank defines its asset allocation policy on a discretionary basis, discussing the investment strategy being applied with the client and keeping appropriate records thereof. The bank may apply an asset allocation policy uniformly for a number of clients or for clients individually.
6. The bank informs the client of the risks of the investment strategy applied and any instructions (see para. 9 below) having regard to his/her knowledge and experience. In the event that the investment strategy desired by the client does not match his/her risk profile, or does not match it fully, the bank draws his/her attention to the resultant risk. This information may be given in a standardised form.
7. The bank checks that the risk profile is up to date on a regular basis. If necessary, it is adjusted and again compared with the investment strategy applied. Where a client maintains the original strategy, notification of the risks involved must be given and this documented in a form that can be reproduced.
8. The bank ensures that the asset management mandate is performed with due diligence, and that the client's legitimate interests are safeguarded in good faith.
9. Instructions (standing or related to a particular transaction) given to the bank by a client supersede these Guidelines. In particular, such instructions are required when the client wishes to make investments that are not common bank investment instruments as specified in Art. 8 below (e.g. direct

investments in real estate, base metals or commodities) or do not comply with the investment strategy applied (see Art. 2 para 11 sentence 3 below).

10. If the carrying out of instructions involves particular risks inherent in the type of transaction concerned, the bank provides the client with information about these risks in a suitable form.

## **Art. 2**

**The asset management mandate must be issued in writing or in any other form verifiable by text as per the bank's proposed wording which must bear the client's signature.**

### **Implementing provisions**

11. It is not sufficient to issue an asset management mandate verbally. Minutes of a meeting containing notes of the client's intention to entrust the bank with the management of his/her assets are also inadequate. However, standing instructions, subsequent amendments thereto (such as switching investment strategy from Balanced to Equity) and additional orders need not be signed by the client but must be documented by the bank in suitable form.

12. By signing the asset management agreement, the client entitles the bank to carry out – within the context of the investment strategy applied – all permissible transactions as set forth in these Guidelines without any additional agreements, clarifications or consultations.

13. The signature can be issued in writing or in any other form verifiable by text.

## **Art. 3**

**The bank ensures that its relevant staff carry out the asset management mandate according to these Guidelines and in line with any internal directives as well as the asset allocation policy according to Art. 1 above.**

### **Implementing provisions**

14. This provision governs responsibility: The asset management mandate is conferred on the bank as an institution and not on any member of its staff or management personally. This does not prejudice the personal service rendered by the client's account officer.

## **Art. 4**

<sup>1</sup>A bank that manages assets must have a professional administrative organisation suitable to its business operation.

<sup>2</sup> It takes appropriate measures in order to avoid conflicts of interest between the bank and its clients or between its staff and clients. If such a conflict of interest cannot be ruled out, the bank must prevent any potential discrimination of its clients which may result. In the event that discrimination still cannot be ruled out, the bank must inform its clients to this effect.

### **Implementing provisions**

15. The bank appoints the executive bodies and members of staff responsible for determining the asset allocation policy, managing the assets and supervising. They have to be adequately qualified.

16. An appropriate administrative organisation implies a clear separation, within the staff, of the asset management and asset allocation activity from issuing standard client account and deposit statements.

17. In situations where there is a conflict of interest, Art. 4 section 2 above adopts the usual regulation for securities trading, adapted to the current context (Art. 8 of the Code of Conduct for Securities Dealers).

18. The bank will not on its own initiative restructure the client's portfolio if this is not in the client's best interests and serves the exclusive purpose of increasing the bank's commission income ("churning").

## **Art. 5**

The client receives standard account and deposit statements by agreement with the bank at least once a year. These are sent to the address agreed with the client.

### **Implementing provisions**

19. This provision ensures that the client is kept aware of the transactions carried out by the bank for his/her account, even if he/she contacts the bank only occasionally

## **Art. 6**

An internal supervisory body of the bank must periodically examine compliance with these Guidelines.

### **Implementing provisions**

20. The examination covers the compliance with these Guidelines and any internal directives, but not the allocation of assets.

## **II. Performance of the Mandate**

### **Art. 7**

<sup>1</sup> The bank must carefully select the investments to be included in the portfolio managed for the client.

<sup>2</sup> The bank must monitor the client's portfolio under the asset management agreement and these Guidelines on a regular basis.

### **Implementing provisions**

21. The bank must base its asset allocation decisions on reliable sources of information. It must monitor the investments on a regular basis. However, the bank cannot be held responsible for the decline in value of carefully selected investments.

22. The bank must ensure that overall the portfolio managed complies with the investment strategy applied. If necessary it takes suitable action to restore compliance or agrees an amendment to the asset management agreement with the client. This does not apply to merely short-term deviations caused by market fluctuations.

### **Art. 8**

The asset management agreement is restricted to common bank investment instruments.

### **Implementing provisions**

23. Common bank investment instruments comprise in particular time deposits and fiduciary deposits, precious metals, money market and capital market investments issued as certificated or uncertificated securities (e.g. shares, bonds, notes, money-market book claims) and their derivative instruments and combinations (derivatives, structured products), as well as collective investments.

24. In the case of collective investments it is a prerequisite that they on their part invest in common bank investment instruments or real estate.

25. In the case of derivative instruments – if and as far as they are admitted under the asset management agreement and these Guidelines – the bank must apply measures of due diligence and professional handling.

26. Base metals and commodities may be used in the form of collective investments, derivatives, index or structured products for the purpose of diversifying the portfolio managed. In the case of investment instruments that involve physical delivery of base metals and commodities, the bank has to ensure that no physical delivery is made to the client.

27. Non-traditional investments, their derivatives and combinations thereof may be used for the purposes of portfolio diversification provided they are structured according to the Fund-of-Funds Principle or guarantee an equivalent diversification. Investments in hedge funds, private equity and real estate are considered to be non-traditional. Such investments are not necessarily restricted to common bank investment instruments or readily marketable investment instruments.

28. According to the Fund-of-Funds principle, the fund is invested in several legally independent collective investment instruments. Diversification equivalent to this principle is deemed to apply when the investment is made in one single collective investment but is administered according to the Multi-Manager Principle (i.e. it is administered by several different managers all working independently of each other).

29. The acceptance of non-traditional investment instruments must be covered by the asset allocation policy of the bank. The bank is obliged to take appropriate measures to secure the careful and competent application of non-traditional investment instruments.

30. For the purchase of investments that are not common bank investment instruments, the client must issue instructions as defined in para. 9 and para. 11 sentence 3 above.

31. The asset management mandate does not entitle the bank to grant corporate loans to third parties for the client's account.

## **Art. 9**

**The bank may enter into securities lending and similar transactions (e.g. repurchase agreements) for the client's portfolio, provided the client is not exposed to an excessive risk of loss relative to his/her remuneration.**

### **Implementing provisions**

32. The asset management agreement or a separate agreement must contain regulations in line with FINMA Circular 2010/2 "Repo/SLB transactions".

33. Where the bank acts as agent (in its own name but for the account of a third party), appropriate account must be taken of the counterparty risk, either by means of collateral or by restricting lending to prime counterparties.

34. Where the bank acts as principal (in its own name and for its own account), risk diversification must be ensured taking the other investments into account.

## **Art. 10**

**The bank must spread the portfolio risk by a diversified asset allocation policy.**

### **Implementing provisions**

35. It avoids cluster risks from unusual concentration in an excessively small number of investments.

## **Art. 11**

**Investment of assets is restricted to readily marketable instruments**

### **Implementing provisions**

36. Ready marketability applies when one of the following criteria is met:

- There must be a representative market for the security (on or off-exchange).
- The issuer or bank must commit to provide ready marketability equivalent to a representative market.
- The investment must be redeemable at regular intervals (at least quarterly in line with Art. 109 para. 1 CISO, with a notice period not exceeding 60 days).

37. Some common retail investments such as medium-term notes are only readily marketable to a limited extent. Such investments, their restrictions on ready marketability notwithstanding, are permissible unless the client has given clear instructions to the contrary.

38. Where an investment becomes less readily marketable after purchase the bank acts appropriately in the best interests of the client.

#### **Art. 12**

**The bank may not borrow funds or enter into potential short positions in performing the asset management mandate.**

#### **Implementing provisions**

39. The bank is not authorised to enter into loan or similar transactions without the express consent of the client, even if it complies with the collateral margins required by the bank's internal regulations.

40. Short-term overdrafts may be admitted, provided they are covered by income or bond redemptions due in the short term or if they occur as a result of valuta date fluctuations in arbitrage transactions.

#### **Art. 13**

**Transactions, especially in derivatives, must not have the effect of leveraging the overall portfolio.**

#### **Implementing provisions**

41. Call options and financial futures may only be sold when a corresponding position is held in the underlying. For call options and futures on stock market indices, currencies, interest rates, base metals and commodities it is sufficient if the underlying is sufficiently represented.

42. When selling put options or financial futures, the full liquidity must be held at the time the transaction is executed.

### **III. Compensation of the Bank**

#### **Art. 14**

**The bank stipulates the modalities and elements of its compensation in the asset management agreement (see Art. 2 above), an appendix to the agreement or a separate agreement.**

#### **Implementing provisions**

43. The provisions of this section follow FINMA Circular 2009/01 "Guidelines on asset management", margin nos. 27-31.

44. The purpose of this stipulation is to outline what the client owes his/her bank for asset management and related services. With regard to determining the bank's compensation, the agreement signed by the client may refer to an appendix, a pay scale or the general business conditions. These documents need not be signed. It is also possible to conclude a separate agreement with the client. The bank must inform the client of amendments in an appropriate manner.

#### **Art. 15**

**The asset management agreement specifies who is entitled to any third-party payments received by the bank that are inherently connected to the asset management agreement. No such notification is required in the asset management agreement where the bank invests solely in products that do not result in payments from third parties. In exceptional cases where payments may be received from third parties under such asset management agreements (e.g. securities bought at client request or delivered to a portfolio until switched), an appendix or special agreement may govern who is entitled to these**

payments. The bank must inform the client of conflicts of interest arising from the receipt of payments from third parties (see Art. 4 para. 2 above).

#### **Implementing provisions**

45. Any claim on the part of the client to the reimbursement of third-party payments to the bank is governed by Art. 400 para. 1 of the Swiss Code of Obligations or the contractual provision.

#### **Art. 16**

The bank informs its clients of the calculation parameters and the scope of payments it receives or may receive from third parties. It may combine individual products into product classes for this purpose.

#### **Implementing provisions**

46. The information provided by the bank regarding calculations or scope may relate to individual products or product classes. It is free to define product classes as it sees fit. The bank's disclosure obligation is of a general nature and applies to relevant payments that it will or may receive in future. For example, its obligation may be met by means of fact sheets, securities account statements or via the Internet.

47. The method and frequency of the financial statements are determined in agreement with the client. The disclosure may consist of approximations, statements taken from an appointed date, or both.

#### **Art. 17**

Upon request and on an individual basis, the bank discloses to clients the amount of the payments already received from third parties.

#### **Implementing provisions**

48. The disclosure obligation includes all compensation from third parties that is inherently connected with the issued asset management agreement (Art. 400 para. 1 of the Swiss Code of Obligations).

49. The issue of retrospective disclosure of third-party payments is separate from that of a potential reimbursement. The contractual provisions are authoritative as to the question of reimbursement (see Art. 15 above).

### **IV. Final Provision**

#### **Art. 18**

<sup>1</sup> The revised version of these Guidelines comes into force on 1 March 2017.

<sup>2</sup> Where the Guidelines require documentation to be amended, a transitional period until 1 June 2017 applies.

<sup>3</sup>Section 2 of this Article does not apply when new agreements are signed.

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