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The Swiss National Bank Damage control

The Swiss central bank is also a victim of its president's demise

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WHATEVER further details emerge about personal trades made by Philipp Hildebrand, ex-president of the Swiss National Bank (SNB), who resigned on January 9th, the central bank itself is now under huge pressure to restore its credibility. The 11-person bank council reacted weakly on August 16th when Mr Hildebrand reported a foreign-exchange trade, initiated by his wife on a personal bank account.



Thomas the bank engine

The council did not immediately investigate whether the transaction breached the SNB's code of conduct, and did not order him to reverse it. Only four months later, in December, did the council react to press reports and initiate an inquiry by PwC, the bank's auditor. Even then it chose to overlook concern in the auditor's report that this trade was "awkward".

Part of the explanation may be the peculiar Swiss attitude to bank secrecy. The Hildebrands' trading came to light because an employee at his private bank leaked the information. A straw poll this week suggested that a majority of the Swiss public views whistle-blowing as no excuse to breach bank secrecy, and regrets the departure of Mr Hildebrand.

The council's failings may also reflect the strangeness of the SNB itself. Its shares, 52.7% of them owned by the Swiss cantons and cantonal banks, are listed on the Swiss stock exchange. There are also around 2,200 private shareholders (one of the biggest, with 5.6% of the bank, is Theo Siegert, a German, though his voting rights are limited to 100 shares). Of the 11 members of the bank council, six are elected by the federal government and five by the shareholders. They have to be Swiss citizens and well-versed in finance. The incumbents are a very Swiss mix of provincial heavyweights, bankers and businessmen—a recipe for cosiness and conflicts of interest.

The scandal has nonetheless reminded the SNB how important the perception of unimpeachable integrity is to the reputation of a central bank. There have been calls for the resignation of bank-council members, but since these demands come from far-right politicians they have been largely discounted. But the government will ask experts to advise it on how the SNB's governance might be changed.

In the meantime, the council itself has the job of proposing a candidate to fill the gap left by Mr

Hildebrand on the bank's three-person governing board. The federal government can only accept or reject the council's proposal, not propose its own candidate. Once the post is filled the government will select a president and a vice-president from the three.

The odds-on favourite to succeed Mr Hildebrand is Thomas Jordan, the current vice-president (and interim head). Unlike Mr Hildebrand he has no private-sector experience, being an academic and financial civil servant through and through. That may suit the SNB after Mr Hildebrand's talk this week of his "dollar lifestyle". And Mr Jordan's intellectual capacity to head one of the world's most respected central banks is not in question.

Mr Jordan is also helped by the fact that the SNB has been doing its main job pretty well while he has been on the board. Bold decisions like the one in September to put a ceiling on the Swiss franc are open to criticism, and helped to make the Hildebrands' trading look so iffy. But the bank has emerged from the crisis as one of the most effective at promoting stability, according to a study by the Federal Reserve Bank of New York. Mr Jordan can take some of the credit for that.

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