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The Challenges for the Financial Industry  
of Cross-Border Business in a Changing  
Regulatory Environment

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May 11, 2011

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## Section 1

### Cross-Border Business – what is it?




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### Cross-Border Business – Definition and Examples

Definition	<ul style="list-style-type: none"> <li>Cross-border business is the provision of wealth management and / or banking services by a licensed entity in one country to clients / prospects domiciled in another country, primarily through Client Advisors and Financial Intermediaries</li> </ul>		
Examples	<ul style="list-style-type: none"> <li>Travelling to another country to meet prospects/clients to e.g. provide services or solicit financial investment products and services</li> <li>Calling the client in his country from the booking center</li> <li>Organizing and participating in marketing events in another country</li> </ul>		
Two sets of rules and regulations	<ul style="list-style-type: none"> <li>Activities are subject to the legal and regulatory framework in the BC</li> <li>Activities also subject to the legal and regulatory framework in the client country</li> </ul>		
Service models	<ul style="list-style-type: none"> <li>Booking Center</li> <li>Prospect / client and Client Advisor meet in BC</li> </ul>	<ul style="list-style-type: none"> <li>Remote communication</li> <li>Prospect / client in his / her domicile country while Client Advisor is in Booking Centre</li> <li>Contacting via remote means (e.g. phone, mail)</li> </ul>	<ul style="list-style-type: none"> <li>Travel</li> <li>Prospect / client and Client Advisor meet in client's / prospect's domicile country, i.e. Client Advisor travels</li> </ul>



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### Cross-Border Business – Client Motivation

#### Why do clients bank in cross-border booking centers?

- Political, financial and legal stability
- Geographical diversification
- Client privacy and confidentiality
- Seasoned, well trained and service-oriented client advisors and product specialists
- Ability to offer and deliver broader and deeper product shelf
- State of the art infrastructure
- Pre-eminent reputation



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Section 2

## Risks Associated with Cross-Border Business



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## Risks Associated with Cross-Border Business

- Introduction
- Supervisory Legislation
  - Provision of Financial Services
  - Supply of Financial Products
- Tax and Criminal Law
- Anti-money laundering legislation
- Civil law, conflict of laws, procedural law
- Other commercial law



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## Legal and Regulatory Factors

The offshore business from a booking centre is affected by that booking centre's and the Client Domicile Market laws and regulations



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Section 3

## Expectations of the Swiss Supervisory Authority FINMA



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### Clearly Articulated FINMA Expectations

- No direct, explicit provisions requiring compliance with foreign law by FINMASA (as opposed to ISA)
- Breaches of foreign law may violate certain general Swiss supervisory rules ("proper conduct")
- Clear FINMA expectations expressed in Position Paper dated October 2010
  - Thorough assessment of legal framework and risks associated
  - Suitable measures to mitigate/eliminate risks
  - Define service model for each target market
  - Outsourcing client management to external asset managers is not an effective means of mitigation
  - Country specific know how must be built of bought
  - Finma escalation expected for reputations risks
  - Reflected in Finma enforcement policy



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Section 4

## UBS' Approach to compliance with Cross-Border Rules



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## Cross-Border Business – Goal of Program

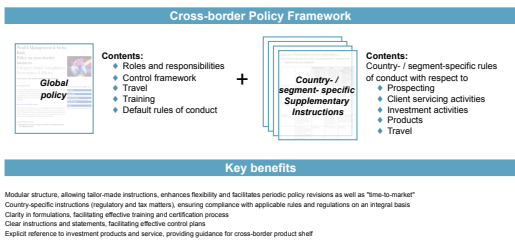
- Fundamental change of legal and regulatory environment for cross-border financial services, forcing the entire industry to adapt business models accordingly
  - Public debates about responsibility of regulators to protect investors' interests
  - Acceptance of financial privacy under scrutiny
  - Changing client needs and expectations
- In order to address changes of regulatory environment and rebuild UBS's reputation of solid integrity, UBS has launched a comprehensive Cross-Border Business Review Program
- Overriding aim of program is to ensure strict compliance with all applicable laws and regulations in all jurisdictions and businesses in which UBS operates

## Overview Workstreams

Policies	Define and implement the cross-border policy framework and issue required policies
Control Framework	Develop and implement a comprehensive control framework
Education & Training	Develop and implement an effective training and certification framework for employees
Tools & Processes	Define and deliver the necessary cross-border specific tools and processes
IPS & Banking Products	Define the compliant product shelf per country and delivery method
Segment Coordination	Ensure that segment specific issues are addressed, e.g. for Financial Intermediaries

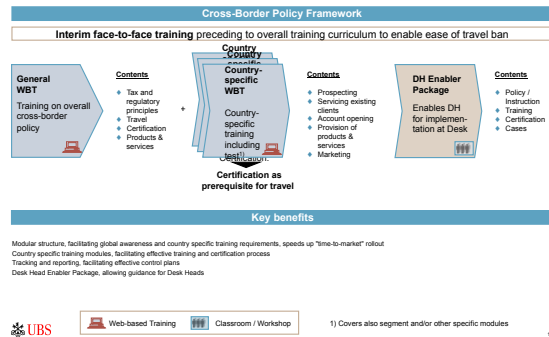
## Policy Concept – Overview

The global policy provides the generic framework which is supplemented by country- / segment-specific instructions



## Training Concept – Overview

Based on the global policy and Supplementary Instructions



## Section 5

### Q & A

## Contact Information