

Swiss central bank: How a family 'secret' led to the fall of the top boss

FP Editors Jan 10, 2012

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Philipp Hildebrand, the man who, until yesterday, was head of Switzerland's central bank, can blame his dramatic resignation on one simple fact: lack of communication.

On Monday, a beleaguered Hildebrand said he was stepping down because he had no way of providing conclusive proof to buttress the claim that he had no prior knowledge of a currency deal by his wife, Kashya, in which she bought \$500,000 even as the central bank was discussing ways to rein in the Swiss franc's rapid appreciation.



Swiss National Bank (SNB) Chairman Philipp Hildebrand. Reuters

The controversy — and the political storm that erupted over the revelations late last year — centres on the timing of her deal: Last year, on 15 August, Kashya, a US-Pakistani citizen and former hedge fund employee, used Swiss francs to buy dollars. (She later claimed she bought the dollars because they were “ridiculously cheap”.)

Two days after her purchase, her husband announced measures to improve the liquidity of the Swiss franc, and less than a month later, imposed a ceiling on the value of the currency — the first time in 30 years — which lifted the value of the dollar against the franc.

Subsequently, Kashya sold the dollars in October and netted a profit of 64,000 francs, according to various media reports.

Hildebrand claimed he only learnt about the dollar purchases [a day after](#) she made the deal; he said he also disclosed his wife’s position to the central bank governing board.

Still, it’s easy to see why this deal sparks allegations of insider trading so easily. Mrs Hildebrand should have know better than to take bets on currencies, especially since her husband, in his role as chairman of the governing board of the Swiss National Bank, is the guardian of the Swiss franc.

As *Time* magazine [notes](#), at best, the central bank chief and his wife can be accused of acting naively. “That those close to the central bank chief are making currency deals is an absolute no-go,” Christoph Moergeli, a senior figure in the Swiss People’s Party, told Swiss TV, according to the magazine. “You don’t even need to put that in writing.”

What the Swiss National Bank did wrong

There was another way in which the lack of communication did Hildebrand in. Until the scandal erupted, the Swiss National Bank, the central bank, never used to publish its code of ethics, which, apparently, was ‘confidential’. No wonder it was easy for allegations like “profiting from inside information” to snowball. (Incidentally, the central bank had investigated Mrs Hildebrand’s trade and ruled it did not violate the bank’s internal rules.)

In the end, it was that famed secrecy that caused even more trouble for the central bank — and Hildebrand. The allegations finally forced the bank to publicly issue its guidelines for the first time this year as it attempted to stamp out suspicions of insider trading.

That’s in sharp contrast to how other global banks operate. As [Bloomberg](#) notes, the European Central Bank and the US Federal Reserve have clear guidelines that prevent members from using confidential information for private gains.

“It would be a scandal” if Bernanke’s (US central bank chairman) spouse traded currencies, Mark Calabria, director of financial-regulation studies at the Cato Institute in Washington, told the news agency. “There would be calls for him to resign. But what’s illegal and what’s stupid aren’t always the same thing.”

True. In the end, perception matters. Even if a top official — or his wife— haven’t done something wrong, he or she also needs to be perceived as not having done anything wrong. In the case of the Hildebrands, the shroud of secrecy around Swiss banking worked to their disadvantage in the end.

As the [*Financial Times*](#) notes, “While all was explicable in the circumstances, the transactions raised the question of whether a central bank chairman should ever be associated with such transactions, let alone in such tricky times as the currency volatility of last summer.”

To be fair, Hildebrand’s wife has tried to make amends. After her husband’s resignation, she struck a more somber note, apologising to the Swiss people, the central bank, and to her husband for what she called “an error in judgement”, [reported Reuters](#).

The financial markets, meanwhile, are taking the whole thing in their stride, and already obsessing over who the next chairman of the Swiss central bank will be. The man who was once dubbed the ‘rock star of the euro crisis’ by a Swiss newspaper for keeping a cool head in the face of eurozone tumult is now history.

If only he and his wife had talked more often about business, life could have turned out so different for the both of them.