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Strategic directions for Switzerland's financial market policy

Report in response to the Graber postulate
(09.3209)

Disclaimer: This is a translation of the German original. In case of discrepancies, the German text shall prevail.

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Executive summary

The financial crisis and its aftermath have revealed weaknesses in the international financial system and changes on the financial markets. Such developments on international markets also have repercussions on the Swiss financial centre. In this context, the Federal Council was requested in the Graber postulate to report on how Switzerland could retain its strengths as a financial centre and overcome its weaknesses. The Federal Department of Finance (FDF), in collaboration with the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank (SNB), has formulated a set of objectives and strategic directions for Switzerland's financial market policy. These bodies were accompanied in their work by a dedicated task force, which also included representatives of the main private-sector associations. The original research underlying this report was thus broadly supported.

It is not the role of the federal government to practise industrial policy. It has an interest in defending the interests of the Swiss economy at large and, in general, creating favourable conditions for private enterprise (Art. 94 (2) and (3) Cst.). Taking this as the overall mission, the Federal Council has defined the following objectives for financial market policy:

- Provide high-quality services for the economy
- Ensure favourable conditions for a high value-added financial sector
- Ensure high system stability and functionability
- Preserve the integrity and reputation of the Swiss financial centre

The Swiss financial centre of tomorrow should be in a position to secure and expand its position as one of the world's leading financial markets. It should meet the needs of the economy as a whole in terms of investment, credit and security, as best as possible, and facilitate flawless payment transactions and securities trading with an efficient infrastructure. It should then make a significant contribution to gross domestic product (GDP), create jobs and enhance the reputation and stability of Switzerland and its economy. These objectives for Switzerland's financial market policy are to be met by four strategic directions. These issues are of relevance to the economy as a whole. Therefore, implementation of the most important measures will be formed by part of the Federal Council's future growth policy.

- Improving the international competitiveness of the financial sector

The Swiss financial centre has to be competitive. The financial market players should offer a wide range of high-quality services that best meet their clients' various requirements. Financial services providers need to demonstrate innovation and flexibility to continually adapt to and help shape new developments on national and international markets. The state should create the framework conducive to this. It does this by participating in international bodies and institutions, keeping abreast of trends on other financial centres and adapting Switzerland's framework as necessary. The conditions required for a flourishing financial sector are: a regulatory framework in line with internationally recognised standards, a robust and stability-oriented monetary and budgetary policy, a high standard of education, and an open and flexible labour market. This also includes a functional financial-market infrastructure, the protection of privacy, and an attractive tax climate for the financial sector and the economy as a whole. In order to take due account of certain peculiarities of the Swiss financial centre, Switzerland reserves the right to make differentiations with respect to its regulation. Efforts should be made to take the regulation beyond international guidelines where this is appropriate or necessary for structural reasons or to procure competitive advantages. The relevant authorities, and FINMA in particular, should ensure that the issue of competitiveness is sufficiently addressed in current and future regulation projects.

- Securing and enhancing market access

Switzerland should continue to nurture its reputation as an international and open financial centre. This means not only allowing foreign financial market players to access the Swiss financial centre but also ensuring that their Swiss counterparts receive equal and non-discriminatory access to markets abroad. Given the growing protectionist trend, efforts must be stepped up to secure and enhance long-term market access for Swiss financial intermediaries.

- Strengthening the financial sector's resistance to crisis and dealing with systemically important financial institutions

Only a stable financial sector can create lasting prosperity and guarantee the financial sector's fundamental role as an allocative mechanism at all times. Large financial institutions provide important services to the entire economy and play a major role in the international significance of the financial sector. They also bring certain risks, however, which tend to come to the fore in times of financial crisis. These risks are especially high in Switzerland, where certain financial institutions are large with respect to the size of the economy as a whole. Measures will thus have to be taken to make systemically important companies less vulnerable in times of crisis, to reinforce central infrastructures, and to allow for the normal correction of failed structures and institutions on the market.

- Preserving the integrity of the financial centre

The Swiss financial centre should stand for stability, predictability and integrity. With respect to the framework, integrity and predictability help boost clients' confidence in the Swiss financial centre and foster its acceptance within the international environment. Foreign states' interest in implementing their tax legislation should be harmonised as far as possible with Switzerland's long-term interests. Under certain conditions (regularisation of undeclared accounts vis-à-vis the relevant state's tax authorities, enhanced market access for financial services provided from Switzerland, protection of bank client privacy), the Federal Council is prepared to extend existing cross-border cooperation within the scope of bilateral negotiations. Various measures need to be examined to address these demands, such as the introduction of a final withholding tax in relations with important neighbouring countries as well as other measures to promote taxpayer honesty among bank clients and thus reduce the associated legal risks. In addition, Switzerland continues to be actively involved in international efforts to combat financial market crime.

In jointly drafting the strategic directions for financial market policy, public authorities and the private sector have already identified numerous measures towards achieving these. The authorities have drawn up a schedule for implementation of these measures, taking account of the time required and their priority. All groups concerned must be involved in implementing the measures. Continued close cooperation between public authorities and the financial sector will support such efforts enormously. For the future, appropriate measures should be introduced to consolidate the interrelations among the various public authorities and between these and the private sector.

1 Introduction

The Swiss financial market has seen a period of intense regulatory activity in recent years. Planned reforms have been implemented in supervision, corporate law, taxation and in combating crime. In this report, the Federal Council outlines to Parliament the lessons drawn from the financial market crisis and the measures it intends to use to increase the efficiency of regulation and thereby contribute to a strong and robust financial centre.

1.1 Mission

Recent months have seen the Federal Council deal intensively with parliamentary tasks on matters concerning the financial centre. In an initial stage, the FDF drafted the report “Current state and prospects of the Swiss financial centre” on behalf of the Committee for Economic Affairs and Taxes of the National Council (WAK-N). That report, published in September 2009, looks at how the financial crisis has affected Switzerland’s financial centre to date. More specifically, it analyses the changes expected in the national and international framework and the threats and opportunities these mean for our financial industry. The focus here was not on the strategic directions of the future financial market policy.

The present report picks up on this subject. It is not the role of the federal government to practise industrial policy. It has an interest in protecting the interests of the Swiss economy at large and, in general, creating favourable conditions for private enterprise (Art. 94 (2) and (3) Cst.). Taking this as the overall mission, the Federal Council deals here with the framework for the Swiss financial market. The report refers to the Graber postulate (09.3209, Financial Market Policy Strategy), submitted by the Council of States on 27 May 2009. The postulate calls upon the Federal Council to “report on how Switzerland could retain its strengths as a financial centre and overcome its weaknesses. The international financial crisis also presents Switzerland with opportunities to advance its position as a major financial centre. Reference may be made to existing reports, task forces and experts. Such findings must be reviewed on the basis of the international financial crisis, however, and should form part of a broad-based strategy.”

With the present report, the Federal Council requests closure of the Graber postulate, 09.3209. In material terms, this is also consistent with motion 09.3141, “Strategy for strengthening the Swiss financial centre”, put forward by the FDP-Liberal parliamentary coalition and rejected by the National Council on the grounds of there being insufficient time to handle it. This motion called upon the Federal Council to present concrete proposals for strengthening the Swiss financial centre and improving its competitiveness.

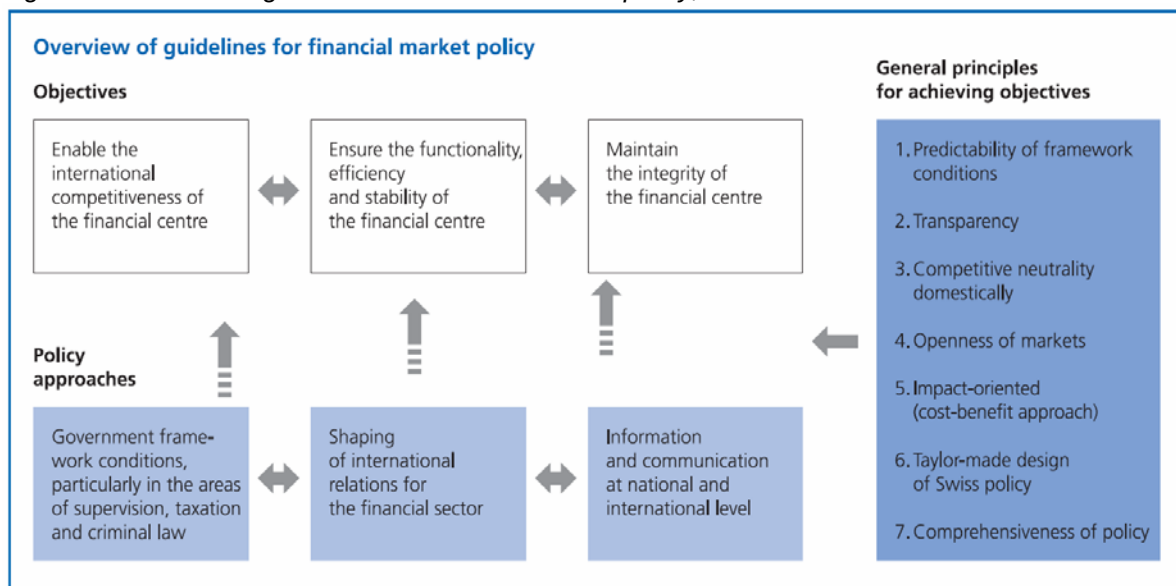
It is not the subject of this report to review the role of the FINMA in the current financial crisis, which is requested in the David postulate, 08.4039, “Clarification of the behaviour of the Financial Market Supervisory Authority in the financial crisis”, and in the WAK-N motion, 09.3010, “Functionability of FINMA”. A separate report is being drafted to this end. Likewise, the issue of dealing better with systemic risks is covered in detail in a separate report. In this respect, the Federal Council has commissioned an expert committee to produce a report by autumn 2010 that analyses the risks engendered by large Swiss companies and indicates appropriate countermeasures (motion put forward by the Swiss People’s Party, 08.3649, “Preventing unacceptable risks for the Swiss economy”).

1.2 Financial market policy in the past

The FDF has been dealing with financial market policy for years. In its “Swiss Guidelines for Financial Market Policy”, published in August 2003 and based on a series of discussions with the

interdepartmental strategy group “Groupe de réflexion” set up in 2000, the FDF formulated an active policy on the Swiss financial centre for the first time. Specifically, international competitiveness as an objective was raised to the same level of importance as safeguarding the functionality, efficiency and stability and preserving the integrity of the financial centre. The policy directions identified in that report were the provision of a legal, tax and institutional framework, the formation of international financial relations and enhanced communication and image-building both in Switzerland and abroad (cf. Figure 1).

Figure 1: Overview of guidelines for financial market policy, 2003



Source: FDF (2003): "Swiss Guidelines for Financial Market Policy"

Switzerland has seen an intense period of regulatory activity in the financial sector in recent years. Numerous reforms planned in the areas of financial market supervision, corporate law, taxation and combating crime have been implemented. This escalation in regulation – also an international phenomenon – has mainly been driven by regulatory developments in important partner states, the evolution of international standards and the improving position of Switzerland's competitiveness.

In autumn 2005, the FDF published its "Guidelines for Financial Market Regulation", which were largely reflected in Articles 5 and 7 of the Financial Market Supervision Act. The core points of these Guidelines were "the requirements for a reasonable, cost-conscious and effective regulation of the financial market". To increase transparency concerning all the regulatory developments, the authorities involved set up "Finweb" (www.finweb.admin.ch), a website outlining the content and status of the main reforms planned for the Swiss financial sector.

Over the past few years, the FDF has nurtured and expanded its relationships with private-sector players at both a political and technical level. It has also intensified its contact with public-sector authorities in other countries, in the interests of the financial centre. Switzerland thus holds regular bilateral talks at a technical level in the areas of financial markets with the major economic countries such as the US, the UK, Japan and Germany, as well as the EU, with FINMA leading the talks in some cases. In a multilateral context, Switzerland has been taking a more active approach to defending the country's interests. Switzerland's influence in the creation of international standards ("soft law") constitutes an important component of this work.

In September 2007 the Swiss Bankers Association (SBA), the Swiss Insurance Association (SIA), the Swiss Funds Association (SFA) and SIX Group (formerly Swiss Financial Market Services) jointly published the "Swiss Financial Sector Masterplan". The purpose of the Masterplan is to improve and expand the long-term international competitiveness of the Swiss financial sector. Following this, the FDF created the Financial Centre Dialogue Steering Committee (STAFI), together with the relevant

supervisory bodies and professional associations. This has the task of studying in depth the initiatives proposed by the financial sector as well as other topics and, if applicable, suggesting measures for their implementation, with a view to improving the conditions and strengthening the international competitiveness of the financial sector.

The STAFI includes representatives from the Federal Finance Administration (FFA) as well as from the SNB, FINMA and the Federal Tax Administration (FTA). The financial sector is represented by the SBA, the SIA, the SFA and SIX Group. The STAFI passed its first package of measures on 2 September 2008¹. This work was interrupted when the financial crisis came to a head in October 2008 and the emergency measures to shore up the Swiss financial system were pushed through.

On 30 September 2009 the Federal Council approved FINMA's strategic goals for the years 2010 to 2012. All of the objectives set by FINMA seek to improve client protection, given that one of the core tasks of FINMA and its supervision is to protect creditors, investors and insured persons. The focus is on increasing resistance to crisis in the supervised areas, protecting depositors and insured persons from the consequences of insolvency, improving transparency in the trading and distribution of financial products, and the formulation and functioning of its supervision.

1.3 Motivation and reasons for adapting the financial market policy

The regulatory and tax framework is a key factor in the development of the financial sector. In formulating the financial market policy, it is important to take a comprehensive approach that addresses the framework holistically and with respect to all sectors of the financial centre. The state can influence the conditions at several levels. Of particular significance are financial market supervision and regulation as well as the tax framework.

The financial crisis and its aftermath have shaken the international financial system to its very foundations. The huge losses incurred by scores of leading financial institutions have brought upheaval and changed market structures around the world. Some major banks abroad have had to merge with other institutions or have disappeared altogether, resulting in further concentration in the financial sector. With governments and central banks all over the world having to intervene on account of the financial crisis, the markets have been subject to many different influences. This has also resulted in large part of the banking sector being nationalised in many countries or the state taking a majority stake in leading financial institutions (e.g. in the UK). Such developments have conferred upon the state additional tasks – conflicting in some cases – with consequences also on regulation.

The world's financial centres are now looking to see what lessons they can take from the financial meltdown. Apart from attempts to improve regulation, which does help to increase financial stability, the focus is also on formulating appropriate responses to the changes that have occurred in the international competitive scene. The global financial market is currently shrinking – a phenomenon that is structural in nature, at least for the time being. The financial and economic crisis has also restricted governments' scope for action in terms of fiscal policy. In addition, the numerous, drastic state interventions have markedly transformed the conditions.

To conclude, there have been some fundamental changes in the environment in which Switzerland's internationally oriented financial centre operates. Numerous developments have imposed new challenges on the Swiss financial centre. Consequently, all those involved are forced to rethink their strategy. Public-sector authorities and the financial sector will have to coordinate their efforts so as to produce a financial market policy that is coherent and generates trust among all market participants.

¹ Cf. FDF press release of 5 September 2008.

1.4 Developing a strategy: Process and participants

Based on the dialogue between public authorities and the financial sector already institutionalised within the scope of STAFI, a joint task force on the strategic direction of the financial centre was formed in May 2009 (Strategy task force). The mission of the Strategy task force was to gather key information for the financial market policy of the future. The report is solely the responsibility of the Federal Council.

The task force is made up of representatives of public authorities as well as the financial sector and is led by the Director of the FFA. Among the authorities, the SNB, FINMA and the FTA are also represented. The financial sector is represented by the SBA, the SIA, the SFA and SIX Group (cf. Annex 1 for a list of members).

To find out what the various players think about current market developments and their opinion on the implications for the financial market strategy to be followed, individual meetings were held with key representatives from the following areas:

- Big banks
- Private banks
- Cantonal banks, Raiffeisen
- Parabanks
- Medium-sized insurance companies
- Global insurance companies
- Reinsurance companies
- Investment funds
- Hedge funds / Private equity
- Industry
- Bank for International Settlements

These hearings made it possible to include a broad circle of those directly affected and contributed to a better understanding of the opportunities and challenges facing the individual sectors.

2 Scenario

The Swiss financial centre makes a major contribution to value creation and employment. Given its strong international ties, Switzerland could not avoid the consequences of the financial crisis. International cooperation clearly needs to be stepped up in order to ensure effective regulation and better coordination of the various national supervisory authorities in times of crisis.

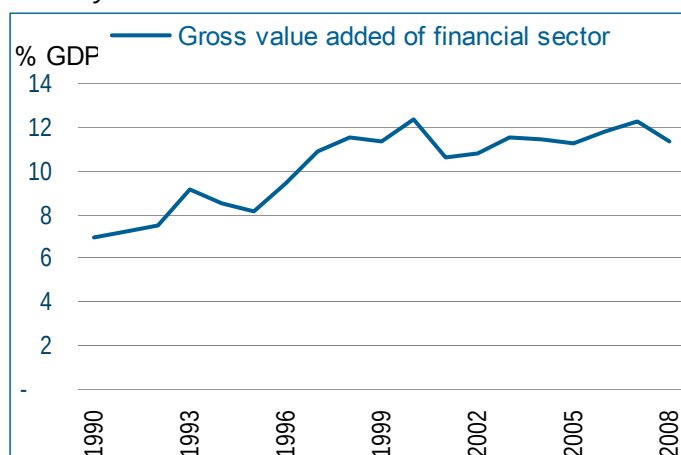
2.1 Significance of the financial centre and the main lines of business

The financial sector is a central pillar of the Swiss economy². It plays a key transmission role within the economy as a whole, optimising the allocation of capital as a factor of production. In efficiently allocating capital and risk and ensuring a sufficient supply of credit, the financial sector provides an important prerequisite for the economy to exploit its growth potential.

The added value of the financial services sector to the Swiss economy as a whole has increased steadily during the past 15 years, with its contribution to gross domestic product (GDP) rising from a little less than 7% in 1990 to over 12% in 2007. This figure fell again to some 11% of GDP in 2008 in the wake of the financial crisis (cf. Figure 2). The expansion since 1990 is largely attributable to the banking sector (lending business), which has more than doubled since then, and also the insurance sector, which grew by some 25%. The banking sector accounts for the largest contribution to value creation, at around 8% of GDP, followed by the insurance sector (including healthcare and accident insurance), at around 3% of GDP³.

Within banking, some 40% of value creation stems from private banking and around one-third from retail banking⁴. The bulk of the remainder comes from funds, investment banking, commodities trade finance and the pensions business.

Figure 2: Share of the financial sector within the overall economy



Source: FSO

The insurance sector offers a wide range of financial services, particularly in reinsurance. Premium income for 2007 worldwide (Switzerland and abroad) came to CHF 168.4 bn, of which CHF 46.5 bn (around 27%) was from reinsurance, CHF 57.3 bn (around 33%) from life business and CHF 64.6 bn (around 38%) from non-life business⁵. In 2007, Swiss insurance companies generated almost 70% of their global premium income of CHF 168.4 bn abroad, an indication of the high degree of internationalisation in the sector.

² Cf. the comprehensive description in the FDF report "Current state and prospects of the Swiss financial marketplace", September 2009.

³ Cf. Federal Statistical Office (FSO), National Accounts.

⁴ Cf. FDF report "Current state and prospects of the Swiss financial marketplace", September 2009.

⁵ Cf. Swiss Insurance Association (www.svv.ch).

In 2006, i.e. before the current financial and economic turmoil, the financial sector accounted for some 185,000 jobs (FTEs), or 5.8% of the entire workforce; this percentage has remained more or less stable since the early 1990s⁶.

Almost half of all those employed in the financial sector work in the retail business of banks. The other financial services providers also make a substantial contribution to employment, with independent asset managers and securities dealers accounting for over 25,000 jobs (around 14% of all jobs in the financial sector). Private insurance companies are also big employers, with over 49,200 jobs in Switzerland and 80,000 abroad (2009 figures in both cases). The financial sector employs well educated people with above-average productivity rates, and this is reflected in the correspondingly high wage levels.

Conservative estimates place the income and corporate tax (natural persons and legal entities) generated by the financial industry at a good 13% of overall tax income at all three state levels⁷.

The Swiss financial sector's high contribution to GDP, compared with that of other countries, is explained by its strong international orientation. The big banks and the major insurance companies, in particular, offer a comprehensive range of financial services. These not only make a direct contribution to value creation at a domestic level but also benefit other export-led sectors, particularly those of significance to the Swiss economy.

2.2 International comparison of the Swiss financial centre

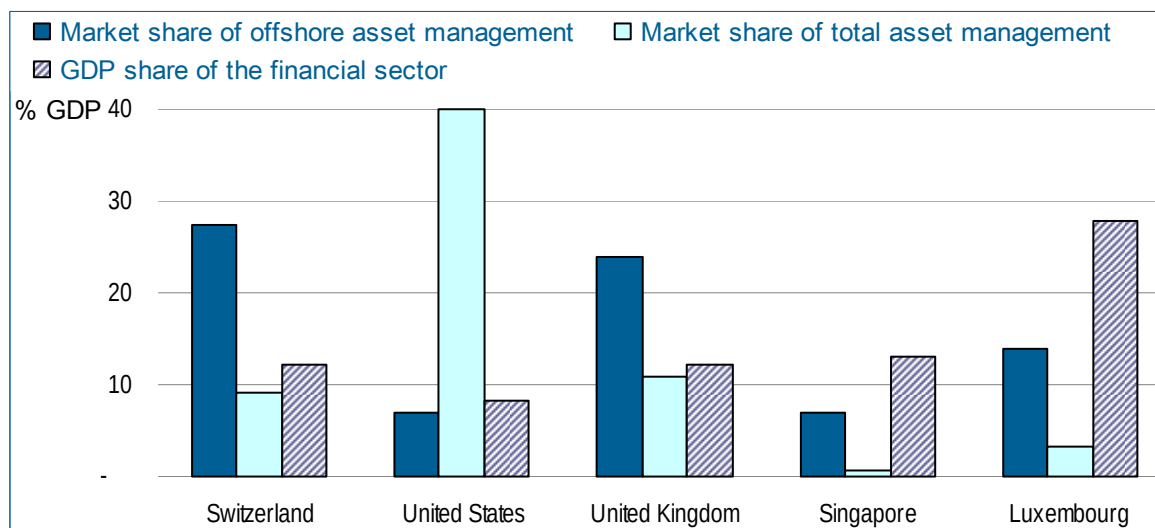
The Swiss financial centre is internationally aligned and is particularly active in the areas of wealth management, insurance and reinsurance, commodities trade finance and the establishment of financial vehicles such as hedge funds (funds of hedge funds). With respect to the wealth management business, the volume of assets under management in Switzerland comes to CHF 11,300 bn – practically 10% of worldwide assets under management – making it the third-largest financial market after the US, with CHF 49,200 bn, and the UK, with CHF 13,400 bn (cf. Figure 3)⁸. In terms of international business alone, however, Switzerland takes the lead with CHF 2,300 bn, a market share of 27%, followed by the UK with CHF 2,000 bn, Luxembourg with CHF 1,200 bn and Singapore with CHF 600 bn. Switzerland's two big banks are among the world's largest wealth management firms.

⁶ Cf. FSO, Job Statistics (JOBSTAT) (FTEs).

⁷ Cf. FDF, Key figures on the Swiss financial marketplace, June 2009.

⁸ A number of uncertainties and difficulties with respect to the methodology were encountered in collecting the data for Figure 3. The percentages should therefore be regarded as approximate values.

Figure 3: International comparison of wealth management and the financial sector at end-2007



Sources: Financial sector (gross value added): FSO, Bureau of Economic Analysis (USA), National Statistics (UK: QTPR, NSRV, ABML), Statistics Singapore; STATEC Luxembourg; Asset management: SwissBanking, Boston Consulting Group, McKinsey, Banque Centrale du Luxembourg.

The importance of Switzerland's financial sector to its overall economy, as mentioned above, is particularly pronounced when compared with countries without an internationally oriented financial market. However, if we compare the value added by the Swiss financial centre with that of other international financial centres, the percentage is not unusually high, corresponding more or less to that of the UK or Singapore.

Nonetheless, despite the importance of its financial market, Switzerland is primarily a place of real economy. Therefore, when identifying strategic directions for the Swiss financial centre, it is important to keep the interests of the overall economy in mind.

Compared with other financial markets, Switzerland has a high degree of market concentration. In foreign business, in particular, the majority of transactions are handled by the country's two big banks. Retail banking is important in terms of employment and value creation but is of far less significance internationally, unlike the abovementioned cross-border wealth management. The funds business is closely associated with this. The volume of fund assets directly managed in Switzerland is comparatively low. Most fund managers for traditional funds, hedge funds or private equity funds are based in New York or London, i.e. financial centres handling most of the trading in securities and other financial products. However, a comparatively high number of funds of hedge funds are domiciled here. These invest in a selection of funds and can thus be offered directly to clients as diversified products. For Switzerland as an export-led country, the local offering in commodities trade finance is also very important.

The lines of business in which the financial sector players operate are subject to constant change, depending largely on international competition. For instance, trade in gold, foreign currencies and the Eurobond market used to be of major importance in Switzerland. In more recent years, however, commodities trading and funds of hedge funds have enjoyed a huge upswing.

2.3 Financial crisis

The financial market turbulence that first appeared in 2007 went on to become the worst financial market crisis since the 1930s, setting off consequences throughout the real economy.

2.3.1 Causes of the financial and economic crisis

The uncertainty with respect to future risks and returns was widely underestimated. The years leading up to the crisis were marked by a period of macroeconomic stability. In this seemingly benign environment, many investors made ever larger investments, underestimating the risk of the trend reversing. In hindsight, this over-willingness to accept risk was evident in the extraordinarily low risk premiums on corporate and high-risk loans, for instance. Soaring financial markets were further stimulated by an expansionary monetary policy and by inadequate promotion of home ownership, particularly in the US. All of this prompted a high level of self-perpetuating credit creation, which, in turn, boosted the availability of liquidity. In addition came the high international interdependencies and, in many countries, a supervisory and regulatory system that failed to adequately address the systemic risks, especially the steady rise of debt financing in the banking sector. Moreover, the transactions of international banks were largely opaque to regulators and investors alike. Ill-considered compensation structures produced misdirected incentives in risk management, resulting in high-risk and procyclical behaviours.

The crisis was triggered by the implosion of the subprime mortgage market and possibly also the beginning of the reduction of global macroeconomic imbalances, such as balance of payments deficits or surpluses. As the crisis unfolded, risks previously assumed were increasingly being classified as no longer acceptable – whether due to a lower appetite for risk or because the actual risks were now easier to see – creating more demand for safe, liquid investments. Forced sales and the loss of confidence in opaque product structures subsequently caused some major securities markets to become illiquid and triggered further price slumps. With the crisis persisting, it became increasingly difficult or even impossible to raise fresh capital on the market, and many banks had no more than the minimum capital reserves required by law; the only option was a large-scale unloading of assets. In turn, this produced another across-the-board collapse in prices, directing harsh criticism at the procyclical impact of fair value accounting.

2.3.2 Repercussions on the financial sector and its regulation

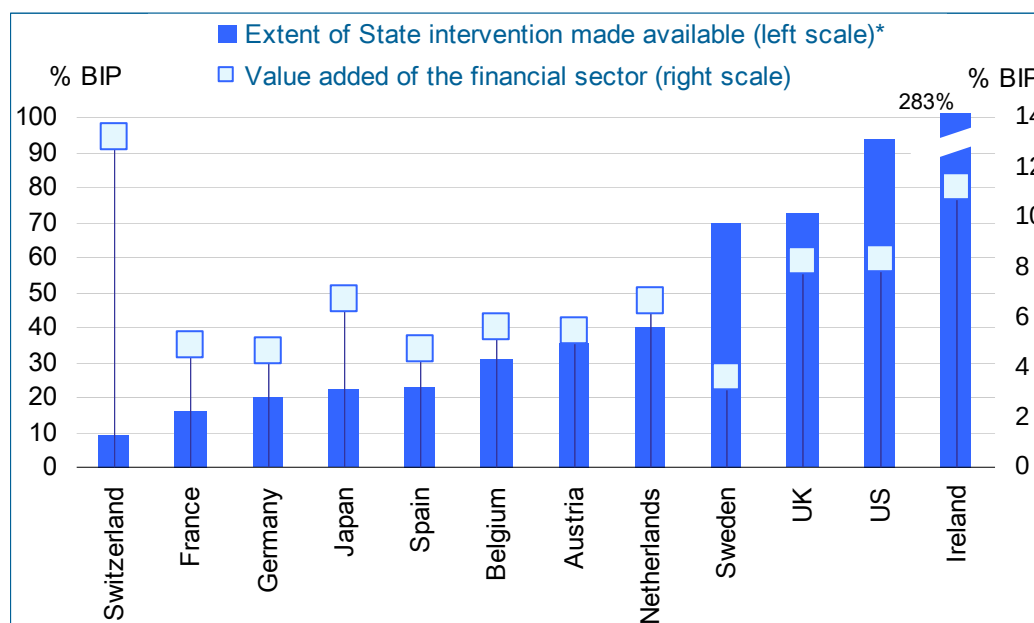
As a result of the high level of debt financing by numerous banks and the losses incurred in certain lines of business, particularly investment banking and proprietary trading, it became necessary to raise new capital. Capital increases were carried out in a particularly adverse situation, where the solvency of many banks was by no means certain. Frequently, the only remaining lender was the state. State intervention was justified by the systemic importance of the financial sector (and certain institutions in particular) and by the threat of a crippling recession on the horizon. In Switzerland too, the federal government and the SNB thus also had to help prop up the financial sector. One of the main elements of this intervention package was the support given to the big bank UBS; another was the strengthening of depositor protection. In addition, the Swiss Federal Banking Commission (SFBC), the predecessor to FINMA, ordered a tightening of the big banks' capital adequacy requirements. Now, the capital held by these institutions has to exceed the minimum risk-weighted capital adequacy requirements in good times by 100%. As a complementary measure, the SFBC introduced a limit on the level of indebtedness, otherwise known as a leverage ratio⁹. FINMA expects the big banks to have a leverage ratio of 3% at a consolidated level and 4% with respect to individual institutions. In good times, the leverage ratio expected by supervisory bodies is 5% both at a consolidated level and with respect to individual institutions. The crisis also triggered regulatory measures concerning the liquidity of the big banks and a reduction in the risks assumed by systemically important financial institutions.

The financial commitment by the federal government and the SNB in supporting UBS was relatively low in comparison with other major financial markets where the added value generated by the financial

⁹ The leverage ratio is a risk-independent measure used to limit the portion of the balance sheet financed by debt. It defines the ratio required between core capital and total assets.

sector is similarly high (cf. Figure 4). This is due to the fact that only one bank actually needed state intervention, with the rest of the financial sector proving to be highly resilient to crisis. What's more, the uncertainty in the financial system and the big banks' difficulties did not produce a credit crunch. After just 10 months, the federal government's support was no longer needed. It should be noted, however, that the federal government had prepared the introduction of guarantees for bank loans but that these, fortunately, were not necessary. Had these guarantees been necessary, the fiscal costs for Switzerland would have turned out to be considerably higher. Moreover, the SNB does not appear to be running any financial risk for the time being. Its maximum risk has since been cut from USD 54 bn originally to some USD 24.5 bn (as at end of October 2009).

Figure 4: State intervention for financial sector crisis management, June 2009



Sources: IMF, OECD.

* State intervention includes guarantees for loan commitments, recapitalisations, asset swaps and acquisitions, as well as financial support measures by central banks. The scope reflects state support that has been announced but not necessarily taken up yet. The figures thus reflect an upper limit of the fiscal burden.

In all financial markets around the world, the financial and economic crisis led to turbulence and uncertainty with respect to future development. In Switzerland, financial institutions concentrating on domestic business or on wealth management have so far weathered the current crisis without any major losses, whereas the two big banks have taken a heavier blow.

To date, Switzerland's insurance sector in general has been less affected than the (big) banks, surviving the crisis without any state intervention.

Now that the financial crisis has spread to the economy at large and recession has set in, the banks are taking another round of falling earnings. The credit default rate has increased and borrowers' credit risks are rising, resulting in further valuation adjustments. This second round is now also hitting those institutions that were only marginally affected by the direct repercussions. This includes insurance companies, who now face a decline in the volume of insurable capital goods and assets. Meanwhile, the prevailing low interest rates pose a challenge for life insurers and pension schemes. In such a context, it is difficult to meet expected returns.

2.4 Developments in the international environment

The meltdown of global financial markets triggered enormous efforts in international bodies to restore and safeguard lasting financial stability. Specifically, it brought changes to the financial market architecture at a national and international level. The main driving forces behind the current financial

market architecture are the G20 as a political steering committee, the International Monetary Fund (IMF) and the Financial Stability Board (FSB). These three bodies have gained in stature in the course of the financial crisis. Emerging markets, particularly the BRIC states, have been included more than before. The following is an outline of recent political, regulatory and tax developments internationally.

2.4.1 Progress in the international financial market architecture

The financial crisis has highlighted the need for intensified international cooperation in order to ensure effective regulation and to make the necessary improvements in coordinating the supervisory authorities in times of crisis. The international financial market architecture has recently undergone certain adjustments to make this possible.

In political terms, the most obvious change resulting from the financial crisis is the greater significance of the G20, at the expense of the G8. Since its emergence in 1999 in the wake of the Asian crisis, the G20 has primarily existed as a committee of finance ministers and central bank governors. In autumn 2008 it became a meeting of heads of state and government, where industrialised and emerging markets together discuss at the highest level the challenges of the financial crisis and the global downturn. Within a year it became the definitive forum for issues concerning the international financial and economic system. In the Leaders' Statement at the Pittsburgh summit in September 2009, the G20 was designated the premier forum for international economic cooperation, thereby in effect superseding the G8. However, the G20 has operated to date not as an institution with its own studies but, rather, through the political leadership of its members and by setting agendas in the competent expert organisations in the financial realm, initially the IMF, the FSB, the Financial Action Task Force (FATF) and the Global Forum on Transparency and Exchange of Information (GF).

At the Pittsburgh summit, the G20 adopted a framework for strong, sustainable and balanced growth. To this end, the G20 members want to set common economic-policy goals, align their economic policies with each other in the future, and conduct mutual evaluations with the support of the IMF.

As a consequence of the financial market crisis, standards bodies, such as the Basel Committee¹⁰ and the FSB have also been enlarged. The FSB – unlike its predecessor, the Financial Stability Forum (FSF) – now represents all countries of the G20¹¹. A charter setting out the objectives, mandate and organisation of the FSB was adopted at the G20 summit in Pittsburgh. Through the endorsement of this charter, the FSB was politically recognised as a formal institution. Inspired by the FSF reports of 2008 and 2009, the G20 Washington action plan and the statement of the London summit, the FSB and its members promote a comprehensive reform agenda (cf. 2.4.2). The member states have undertaken to adopt internationally recognised standards in financial market regulation and, in this respect, will be subject to regular assessment.

Switzerland joined the FSF in 2007 and obtained a second seat when this expanded to become the FSB. It is now also represented on the important FSB steering committee, which fosters operational works. The Chairman of the Governing Board of the SNB and the Director of the FFA represent Switzerland within the FSB. FINMA will be included in the formulation of Switzerland's position.

With the establishment of the FSB, clearly regulated cooperation with the IMF has become more important. This plays a key role in the prevention and management of financial and economic crises. The crisis has underscored the relevance of the IMF in supporting member countries. To secure its importance in this respect, a resolution was passed to increase the IMF's resources, at least temporarily. In the longer term, the reinsurance facility for member states – the IMF's new credit lines – will be built up significantly. This will make it possible to deal with extraordinary crises in the future,

¹⁰ New members of the Basel Committee are Brazil, China, India, Russia, South Korea, Mexico and Australia.

¹¹ The FSB secretariat is still based at the Bank for International Settlements (BIS) in Basel.

such as the present one, without having to make an excessive increase in the IMF's regular resources and expand the institution correspondingly.

2.4.2 Reform agenda for the financial market

In the wake of the financial crisis, it is now widely believed that the financial market's resistance can only be strengthened with a complete range of interwoven regulatory measures. With this in mind, the FSB and its members have embarked on a comprehensive reform agenda to build a stronger, more resistant financial market, taking advantages of the current momentum for reforms. This seeks to enhance market discipline, mitigate procyclical tendencies and halt the advance of protectionist measures. The reforms were based on the 67 recommendations proposed by the FSF Working Group in April 2008 as well as recommendations by the various standards bodies, such as the Basel Committee, the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO).

Overall, the work is taking two directions. On the one hand, the FSB and its members have initiated a comprehensive reform agenda. This is based on clear principles formulated by the FSB as well as a time schedule. The core elements of the regulatory reform are the tightening of the capital and liquidity requirements imposed on financial intermediaries and efforts to enhance transparency and prevent excessive risk-taking. On the other hand, organisational principles have been drawn up for international cooperation with respect to crisis management.

These give some insight into the direction for extending regulatory cooperation in issues of principle. Essentially, the principles affect a comprehensive exchange of information between the supervisory bodies in accordance with a set of predefined criteria. In most countries, cooperation between the various authorities responsible for financial market issues has been reviewed and improved. Supervisory colleges have now been established for all financial institutions regarded as systemically important. Efforts are also being made to formulate general strategies on cross-border crisis management with the emphasis on enhancing coordination among supervisory bodies in crisis situations.

Initial concrete findings now exist in the nine areas of reform identified by the FSB¹². For instance, various guidelines have been improved so as to raise the capital requirements for banks. In addition, risks have been stemmed overall by tightening risk management standards, intensifying the oversight of credit rating agencies and improving the disclosure of on- and off-balance-sheet risk exposures. Core principles have been drawn up in an effort towards harmonising depositor protection internationally. The FSB principles to support sustainable compensation schemes have been integrated into the Basel Guidelines. Work is underway internationally to implement these guidelines. Switzerland published a circular on remuneration systems on 11 November 2009, which will take effect on 1 January 2010.

Reform efforts are still underway in other areas. The Basel Committee on Banking Supervision (BCBS) is working on improvements concerning capital and liquidity. This should step up the level of shock resistance and stem the procyclical nature of debt financing in the system. The Basel II framework agreement is currently being revised to raise the capital adequacy requirements. This will also raise disproportionately the requirements for systemically important institutions. In addition, the capital adequacy requirements are to be made anticyclical and a leverage ratio will be introduced. The rules will be defined in concrete terms by the end of the year and adapted in 2010 if necessary.

Based on the harsh experience of the crisis, the BCBS wants to step up resistance to a system-wide liquidity shock and, in this respect, it intends to adopt a new minimum global liquidity standard by end-

¹² Cf. *Improving Financial Regulation*, Report of the Financial Stability Board to G20 Leaders, September 2009.

2009. This should be applicable internationally, given the particular susceptibility of cross-border flows of funds in times of a crisis of confidence.

With respect to insurance supervision, the IAIS is working on a globally applicable framework of supervision for insurance groups. The IAIS has thus commissioned the Common Assessment Framework Task Force (ComFrame Task Force) to review existing modern insurance supervision regimes and actual cases so as to evaluate possible options and whether and how these could be implemented. Switzerland holds the chair of this ComFrame Task Force with the Vice-Chairman of the Board of Directors of FINMA.

Current financial reporting standards have emerged as an aggravating element in the crisis. The International Accounting Standards Board (IASB) is working on a gradual improvement and simplification of the rules. In November 2009 the IASB completed the first phase in creating a new standard for dealing with financial instruments with the publication of new classification and valuation guidelines. The new rules must be applied from the start of 2013, although they may also be used earlier (even for the 2009 financial year).

Numerous other reform efforts are also rapidly appearing. For instance, many important financial centres are involved in drafting concrete guidelines for compensation systems based on the FSB's general principles, which already exist. Concerning the regulation of hedge funds, the IOSCO is formulating a model framework that can be used by national regulators. In a community project, the IMF, BIS and FSB are drafting a set of guidelines for evaluating the systemic risks of financial institutions. To lower the systemic risk of the derivatives market, international efforts are being made in the OTC (over the counter) domain. Particular attention is being given to reducing counterparty risk or the securitisation of this with equity capital.

In recent months, the FATF has started preparing the fourth round of mutual evaluations for its 40 + 9 Recommendations. This will also include evaluating existing recommendations for their effectiveness and, if necessary, adding to these. The corresponding talks will be held in stages and are due to be completed by October 2011. In terms of content, the focus is on the following three topics: improving international cooperation among the relevant authorities, proposing that tax offences be classified as predicate offences to money laundering, and clarifying the applicable standards on determining the beneficial owner of legal entities and trusts.

To ensure that international standards may be implemented at a national level, the FSB conducts a peer review among its members on adherence to the guidelines. By March 2010, an overview of the extent to which the national regulations of FSB members adhere to the international standards should be drawn up and further action defined in the case of non-compliance.

2.4.3 International cooperation in tax matters

The bailouts and economic programmes launched in the course of the financial crisis increased the existing public debt in many countries. One consequence is that individual countries now need to find more resources, there are calls to improve the coverage of the taxation of their residents' income.

This has again raised the importance of international cooperation in taxation. The cross-border exchange of tax information is a central topic in individual states' foreign policy and in the agendas of international bodies (particularly the Organisation for Economic Co-operation and Development (OECD) and the G20). Increased pressure has come on states that do not fully implement the international standard set out in Art. 26 of the OECD Model Tax Convention. In this context, the Federal Council ruled on 13 March 2009 to adopt the standard set out in Art. 26 of the OECD Model Tax Convention in international mutual administrative assistance in tax matters and to withdraw its reservation on this provision. Switzerland thus agrees to exchange information with partner countries for tax purposes in individual cases where a specific and justified request has been made, regardless

of whether or not there is a tax offence. Such information exchange also extends to banking information.

The new mutual administrative assistance policy in tax matters adopted by the Federal Council is currently being implemented in the revision and/or conclusion of double taxation treaties (DTTs) (cf. 6.5.2). Priority is given to negotiations with OECD countries. Of secondary priority are other countries for which counter-demands can be made in other convention areas of significance to the Swiss economy¹³ or where there is a good chance of concluding the negotiations promptly. On 25 September 2009, Switzerland signed its 12th OECD-compliant DTT, with Qatar, and was thus removed from the “grey list”. By 17 November 2009, Switzerland had negotiated with 25 countries on the inclusion of mutual administrative assistance in accordance with Art. 26 of the OECD Model Tax Convention into the corresponding DTTs. A protocol of amendment was signed with 18 of these countries. Twelve of the revised DTTs have been signed by the Federal Council. These DTTs will be dealt with by Parliament in the coming months. Some of them are subject to an optional referendum.

Numerous countries have adopted the OECD standard for mutual administrative assistance in tax matters as a direct result of pressure from the OECD and the G20. However, of more importance than professing to accept the OECD standard is its concrete implementation in the law and in practice. The Global Forum, comprising some 90 OECD and non-OECD members, agreed to create an evaluation process by member states at its last meeting at the start of September 2009. This evaluation seeks to ensure universal application of the OECD standard and thus achieve a level playing field for all (cf. 6.5.2).

Switzerland cooperates closely with the EU in tax matters. The taxation of savings income agreement was signed in 2004. This provides for a system of tax retention to ensure that the interest earnings of persons resident in an EU member country are appropriately taxed. The EU is working on enhancing its Savings Tax Directive to close some outstanding loopholes. As a result of these developments at EU level, Switzerland and the EU have held consultative talks on the technical functioning of the agreement (cf. 6.5.2).

In addition to international efforts concerning the exchange of information in tax matters, various states have also adopted national measures (e.g. tax amnesties) to encourage their citizens to declare and repatriate their assets managed abroad.

¹³ Country-specific counter-demands are made within the scope of the individual DTT negotiations. The objective is to exploit the potential for improvement in the individual DTTs, previously denied to Switzerland on the basis of the restrictions in mutual administrative assistance.

3 Positioning of the Swiss financial centre

The strong position held by the Swiss financial centre has benefited from particularly conducive conditions. Growing international regulation and standardisation are diminishing the competitive advantage brought by Switzerland's traditional strengths as a financial centre. Targeted improvements of the "new" competitive factors will thus have to be made.

3.1 Lines of business

The Swiss financial centre of today is characterised by the dominant position of financial institutions operating in asset management and private banking. Apart from these, however, there is a whole range of other financial services in which Switzerland has earned itself an important position internationally. These include reinsurance, currency trading, exchange trading with derivatives (through the participation of SIX Swiss Exchange in Scoach and EUREX), commodities trading and the management of fund of hedge funds. Switzerland and its financial institutions also hold substantial assets and franchise values through portfolio and direct investments abroad, due in part to the big banks' and insurance companies' operations in other countries. In normal times, these assets abroad generate high earnings in favour of the Swiss current account.

In many other financial services, however, Switzerland is of less significance, for instance in securities and OTC derivatives trading, the funds business, institutional asset management, investment banking, commerce and corporate banking as well as hedge funds and private equity management. To a certain extent, the country's insignificant position is structural, e.g. Switzerland's minor position in retail banking is due to the small size of the country, with retail banking rarely a cross-border activity. In other cases, however, Switzerland's minor role is a consequence of uncompetitive conditions. For instance, Luxembourg rather than Switzerland has established itself as an international funds centre because the regulatory and tax environment in Luxembourg is more conducive to funds products.

3.2 Strengths and opportunities

Switzerland as a financial centre offers certain traditional strengths, such as the country's political stability, a long tradition of legal certainty and protection of property rights, the dependability of public-sector bodies, functioning institutions and a reliable infrastructure. There are also decades of a relatively strong Swiss franc, its traditionally unrestricted convertibility, the absence of currency reforms, a high household savings rate, low interest rates, the high standard of Swiss educational establishments, the high educational level of a broad sector of the population, a flexible labour market, a competitive tax burden for legal entities and natural persons and the generally high standard of living in Switzerland, increasing its attractiveness as a place to live and work.

With respect to cross-border asset and wealth management, the low perceived risk in Switzerland of losing assets through confiscation, inflation, currency reform, corruption or other forms of expropriation also traditionally played a role. Switzerland has earned a solid reputation as a safe haven. In addition, banking secrecy meant that persons and institutions domiciled abroad could benefit unreservedly from the advantages of the Swiss financial centre with respect to their assets in Switzerland, particularly the protection of the Swiss legal system as, for many years, information was only forwarded to foreign authorities in the case of a criminal offence under Swiss law. Taken alongside other location-specific advantages, this protection of foreign bank clients helped to make Switzerland the world's largest manager of cross-border assets.

With respect to the labour market, Switzerland has undoubtedly become more international and open. Nonetheless, it cannot match the force of attraction and integration of international melting pots like New York or London for hiring talent from all over the world. Also, it does not really have the critical

mass required for the formation of large specialised clusters in individual lines of business. Overall, however, the human resources situation is quite comfortable.

With its financial supervisory body FINMA and the SNB, Switzerland has a modern financial market regulatory and supervisory structure, at both an institutional and macroprudential level. In SIX Group, it also has an efficient national trading and settlement infrastructure. It is clear, however, that future challenges will require the financial market authorities to become bigger and more professional, primarily with respect to international cooperation.

In principle, therefore, the Swiss financial centre has all the structural prerequisites to maintain its leadership position in several areas of the financial industry. As a core competence, wealth management is particularly well established. However, with our competitors constantly gaining ground in areas traditionally underpinning Switzerland's success, it will be increasingly important to have a flexible and innovative industry as well as, and in particular, the tax and regulatory framework needed to exploit the available potential in the future. For the post-crisis period, the Swiss financial centre is well positioned to prevail in international competition. Furthermore, changes in the conditions on international markets have improved Switzerland's position in alternative investments.

3.3 Weaknesses and threats

Apart from the various conditions and factors mentioned above, such as political and macroeconomic stability, a strong currency, legal certainty, professionalism of services and discretion, Switzerland's mutual administrative assistance policy in the past formed another advantage for its financial centre; alongside the above conditions and factors, this enabled the country to develop an internationally aligned asset and wealth management industry. Other lines of business, such as investment funds and management activities in alternative investments, also benefited enormously from this. As a new situation started with the adoption of the OECD standard for mutual administrative assistance in tax matters. Nonetheless, information is still only forwarded to foreign authorities where there is a concrete suspicion, a description of the specific circumstances and the client in question is named.

The Swiss financial centre is vulnerable through its high dependency on cross-border asset and wealth management and the comparatively small domestic market. The possibility of acquiring international business is thus crucial. This applies to not just asset and wealth management but also a range of other financial services, such as insurance. At present, the greatest threat facing the Swiss financial centre is the risk of Swiss financial institutions losing access to foreign markets, whether through regulatory changes or the strict implementation of existing restrictions. The financial market crisis has intensified the trend towards protectionist measures in both the EU and the US. Such restrictions prove a hindrance to cross-border business, i.e. the export of financial services. Without sufficient market access possibilities, value creation in the banking sector is not likely to remain at its current level.

Although Switzerland has weathered the crisis better than other countries, the vulnerability of its financial system has been exposed. In particular, the dominance of the two big banks and the major insurance companies pose a cluster risk for the economy, combined with – given the implicit state guarantee – a moral hazard problem.

The Swiss tax system is highly competitive internationally in terms of corporate taxation. Apart from tax on profits, however, other taxes levied at the federal level are proving detrimental to the financial sector's ability to compete. The planned Corporate Tax Reform III (cf. 6.2.3.2) will only partially overcome this. The withholding tax deducted from bond interest has a particularly adverse impact: this is largely responsible for the weakness of the Swiss capital market and is also detrimental to the country's position as a place of employment. Stamp duties, applicable to certain financial products, also undermine the financial market. Given the highly dynamic international environment, the tax

system and specifically stamp duties should come under constant scrutiny to check for any need for action, and the measures required should be implemented promptly.

Regulation and supervision are increasingly being determined by international standards, which Switzerland then has to adopt in order to ensure the international recognition of equivalence of its own regulation and supervision. This trend brings with it certain threats, but also opportunities. One threat is the lack of scope to generate regulatory competitive advantages through either non-regulation or under-regulation. On the other hand, the trend toward international standards and rules also gives Switzerland the possibility of implementing internationally its high regulatory standards that resulted from specific features of the Swiss financial sector in certain areas and thus preventing itself facing competitive disadvantages.

Based on the political system, Switzerland's legislative process is traditionally quite slow and is characterised by multilateral compromise among the various interests. This has the advantage of continuity and predictability and increases the probability of a well-balanced legal framework. The drawback is that, as a rule, Switzerland cannot align its conditions sufficiently rapidly and consistently with the international competitive situation. In several cases, this has resulted in a loss of business in the past (e.g. various trading activities, investment funds).

3.4 Conclusion

The traditional relative strengths of the Swiss financial centre (protection of assets through political stability, legal certainty, a strong currency, protection of privacy) are playing an increasingly marginal role, as the gap between Switzerland and other countries continues to narrow. There are also certain trends acting as a barrier to cross-border market access for Swiss financial institutions or products. Meanwhile, other competitive factors are gaining in stature, such as tax and regulatory framework, innovation and a qualified workforce. In these factors, however, Switzerland has a smaller and less durable lead than with its traditional framework.

Thus, if Switzerland is to maintain its international significance as a financial centre, certain targeted improvements have to be made in terms of market access and the “new” factors of competition. The fiscal and regulatory framework are of particular significance. These have to be optimised in an international environment characterised by increasing pressure to adopt international standards and rules. For one thing, there is a trend to have to eliminate Switzerland's own competitive advantages; and at the same time, however, the country is left with limited freedom to create new ones. In such a situation there is an increasing urgency for Switzerland to eliminate its specific competitive disadvantages so as to remain competitive internationally. Meanwhile, it is now more important than ever to be able to adapt flexibly to new circumstances and to rapidly identify and seize new opportunities. This includes, in particular, safeguarding and improving the Swiss financial sector's entry to the most important markets abroad.

4 Development prospects for the Swiss financial sector from the the financial industry's perspective

The regulatory framework and business conditions for the financial sector and the business models operated by the private sector need to be aligned with one another. If these are to be adapted to the new challenges, there has to be an exchange between the public and private sectors. In this chapter, the financial industry evaluates Switzerland's strengths and future prospects as a financial centre for the attention of the Federal Council and Parliament. The country's leading position in areas such as asset and wealth management and insurance is confirmed. It is also clear, however, that the potential for future growth depends largely on having direct access to markets outside of Switzerland.

Both the Confederation and the cantons are committed to the principle of economic freedom (Art. 94 (1) Cst.). They protect the interests of the Swiss economy as a whole and ensure an adequate regulatory framework and favourable business conditions for private enterprise (Art. 94 (2) and (3) Cst.). In addition, the federal government is empowered to issue provisions relating to banking and the stock exchange, financial services in other areas and private insurance (Art. 98 Cst.). However, Art. 98 Cst. does not authorise the federal government to formulate an actual industrial policy; its mission is to protect creditors, investors and insured persons and to ensure the functionality of the financial markets. It fulfils these objectives with an adequate regulatory framework for the financial market, which should be based on actual circumstances on national and international markets. The following section looks at the lines of business that, from the point of view of the financial industry, show strong growth potential or already have a good competitive position that should be retained. It also specifies the conditions that representatives of the financial sector believe should be improved in order to fully exploit the potential of these business areas.

4.1 Banks

4.1.1 Wealth management and other lines of business

The most important line of business offered by Swiss banks is wealth management, which goes on to form the basis for several other niche businesses. Wealth management accounts for around half of the added value generated by banks. In cross-border private business, Switzerland is by far the leading international financial centre with almost CHF 2,300 bn in assets under management at end-2008, corresponding to a 27% market share. The financial crisis has placed this business segment under pressure, however. Although Swiss banks still managed to generate net inflows in 2007 and 2008, the future is uncertain. For one thing, it depends largely on international efforts to combat tax offences and the protectionist tendencies emerging on global financial markets. At the same time, the cumulative effect of national and international regulatory measures – whether planned or already implemented – may restrict the scope for action in Swiss wealth management and actually place Swiss banks at a competitive disadvantage with respect to their foreign counterparts.

Wealth management will nonetheless remain a core business of the financial centre for the foreseeable future and may even be further expanded. Asia and the Gulf region, as well as parts of South America, will grow at an above-average rate, increasing the demand for asset as well as wealth management services; these markets will be looking for expertise, reliability, a sound currency as well as economic and political stability, and not primarily tax-related advantages. Switzerland should be able to share in this trend. Despite these positive long-term prospects, Europe will remain the most important market in coming years.

Recent figures indicate that the gross value added in wealth management in 2008 is slightly higher than in 2006, and the same applies for the number of employees. Given the small domestic market, growth opportunities are primarily being sought in cross-border wealth management, which is why

market access in general, and specifically with respect to the EU, is an absolute prerequisite. For the Swiss economy, it is crucial that access to other markets should not be reserved for locally established subsidiaries, as only offshore wealth management and cross-border services go towards creating value within Switzerland. For the type of wealth management that best supports the Swiss economy, it is also necessary to guarantee privacy, the regularisation of legacy assets as well as legal certainty by way of, for instance, a law on mutual administrative assistance. Furthermore, competitiveness would be bolstered by abolishing stamp duties and by cooperating with interested countries on the introduction of a final withholding tax for the taxation of investment income.

As a special area of asset management, the financial industry sees potential for growth superficially in the management of large-scale assets. In the case of institutional asset management, such as pension funds, insurance companies and family offices¹⁴, the financial industry has identified growth potential particularly in Swiss maintenance and family foundations and is calling for a revision of Swiss foundation legislation. They are also seeking some alleviation of the Lex Koller law so that family offices, for instance, can also invest in property funds for pure investment purposes. The creation of a Swiss trust law should be examined in detail.

From an overall viewpoint, the high volume of assets managed in association with asset and wealth management services is also central to the success of the Swiss financial centre. For one thing, high net-worth clients who have invested their capital in Switzerland often also become shareholders and creditors; for another, the banks endeavour to provide their clients with an all-round service, which is why they need to offer a wide product range and complementary business models or activities. The financial industry thus considers it necessary to establish further lines of business in order to promote a strong and robust financial marketplace. Apart from the relatively steady retail banking, this also includes the areas of collective investment schemes (cf. 4.2) and commodities trade finance¹⁵.

The interaction and overlap between these different lines of business generate substantial synergies (e.g. high-net-worth individuals also wishing to use investment banking services, such as M&A) together with the geographically interesting location of Switzerland, its economic framework and, above all, the high standard of living also contribute to creating the necessary prerequisites.

In the business of commodities trade finance, Switzerland is now the world's second most important trading centre for commodities. The financial industry thus believes that this line of business could be further expanded. Switzerland is ideally suited to successful commodity trading for a number of reasons (central geographical location, social and political stability, liberal economy, discretion, presence of international organisations and non-governmental organisations (NGOs), advantageous tax legislation and know-how in the area of commodities). This is undoubtedly also a business likely to gain in stature in the future, with increasing globalisation and higher demand, e.g. from emerging economies. To advance further in this field, Switzerland needs to remain attractive as a corporate location and ensure the acceptance of its tax system. Other measures required are clear processes and procedures in mutual administrative and legal assistance as well as aligning the capital adequacy requirements for banks with those of international standards.

Retail banking has proven to be relatively resistant to the crisis and a stable pillar in fulfilling macroeconomic functions within Switzerland. Even if this is a business with limited growth potential, the banks have generated a large part of overall value added in this business (some CHF 15 bn or

¹⁴ Family offices are private companies that manage the assets of one or several wealthy families. Traditional family offices often offer a complete service, including personal services such as travel arrangements.

¹⁵ Commodities trade finance consists of short-term, earmarked loans to trading firms operating worldwide. These are usually extended to finance a specific business transaction and enable the trading firm to settle the purchase price of the goods it has acquired and which are intended for export (mainly large volumes of commodities and/or semi-finished goods) immediately upon delivery by the vendor and to cover the associated logistics expenses.

35%). Particularly in times of crisis, banks with a domestic-market orientation can make an important contribution to stabilising the financial and business environment.

4.1.2 Capital market

On the capital market, banks play the role of broker and adviser between parties. The capitalisation of the total of outstanding domestic corporate bonds in Switzerland amounts to less than 40% of GDP. This is well below the values in other countries, such as the US, Germany, the UK or Japan. The close interaction between international capital markets intensifies competition between the various issuing locations. Furthermore, as the legislative frameworks converge, there is an acceleration in the development of a pan-European capital market, which threatens to lessen the significance of the Swiss capital market. Finally, the Swiss franc bond market is becoming less important internationally. Despite this, the Swiss capital market has played a key role since the outbreak of the financial crisis, and there has been an upsurge in issuing activity on the Swiss franc market since March 2009. This is reflected in, for example, the higher net borrowing on the capital market (issues less redemptions), which was negative in the past.

The big banks have a special role in this respect. They contribute significantly to creating liquidity in the Swiss equity and capital markets and, with their specialised know-how, allow their Swiss corporate clients (including SMEs) access to international investors. They support trading and foreign currency transactions and maintain significant components of the Swiss financial market infrastructure.

The financial industry is calling for various measures to help boost the capital market, such as tax measures and ensuring the equivalence of Swiss regulation with international standards.

4.2 Collective investment schemes

The value chain for investment funds can be broken down into three phases:

1. administration (production) in association with maintaining the fund structure (fund management and fund administration, including custodian bank services);
2. asset management for the fund; and
3. the placement and selling of products with the associated income from commissions.

While Switzerland is an important location for the distribution and also the management of investment funds and other investment vehicles (including private equity and hedge funds as well as funds of hedge funds), it is rather unattractive as a production location for collective investment schemes. Some 90% of value added is generated in the areas of asset management and distribution, whereas production (administration) is largely conducted abroad. Switzerland is also still underdeveloped as a location for the management companies of single hedge funds. To make the business more attractive and to adapt it to international standards, the financial industry would like to see a revision of the Collective Investment Schemes Act (CISA) so as to cover all asset managers of collective investment schemes managing so-called off-shore funds from Switzerland. The financial industry sees potential for growth not only in alternative assets but also with respect to Qualifying Investor Funds (QIFs). There is a certain degree of growth potential in the domestic market, especially in the field of special products like single-investor funds and other collective investments for qualified investors. According to the financial industry, this potential could be better exploited through a more flexible legislative regulation, like in Luxembourg with what are known as Special Investment Funds. Most growth potential, however, lies in cross-border business. In this area, further developments should be made in product creation in Switzerland and their sale abroad or institutional asset management (portfolio management), which has grown very little in recent years. These business areas rely heavily on a highly qualified workforce, which is why Switzerland needs to ensure an attractive working environment.

The greatest impairment identified in the funds business is the problem of EU market access, which could become even more difficult with the introduction of the EU Directive on Alternative Investment Fund Managers in 2009. Switzerland as a funds location – after voting No to the European Economic Area (EEA) in 1992 – lost the bulk of its products to EU locations like Luxembourg and Dublin, and more recently also to EEA member Liechtenstein. With no bilateral agreement in this area, it has no access to the European market for UCITS¹⁶. Meanwhile, Switzerland has always taken a very liberal attitude to fund managers and their products from the EU. Now, as a result of the financial crisis and the ensuing burst of regulatory initiatives in the EU, there is a more uniform and thus a much bigger European market for collective investment schemes. This brings with it the risk of managers previously domiciled in Switzerland departing, whose value added for the Swiss economy is substantially greater than that of the individual fund products. The financial industry regards it as crucial for Switzerland to negotiate the necessary reciprocity and retain the EU passport. In addition, the financial industry is calling for a clear and internationally competitive regulation of the tax framework for investment funds (direct tax: taxation of the indemnities of private equity and hedge-fund managers; withholding tax: affidavit procedure for “foreign-to-foreign products”). Finally, the financial industry would like to see a pragmatic approach to authorisation for private equity companies (limited partnerships for collective investment schemes as defined in the CISA) by the commercial registry offices and FINMA as well as increased personnel resources for the supervisory authorities and specific knowledge transfer between market participants and the supervisory authority.

4.3 Insurance sector

4.3.1 Existing lines of business

The insurance business holds considerable potential for growth. However, this is only the case if the existing lines of business can be safeguarded with appropriate measures. The insurance industry sees a need for the harmonisation of various reporting and solvency systems and the recognition of equivalence of insurance supervision. In addition, the minimum requirements for occupational pensions should be simplified and adapted to economic fundamentals (minimum interest, minimum conversion rate). The associated systemic risks should be eliminated (shortfalls among the autonomous pension funds, excessively high minimum interest rates that cannot be earned in the market). Uniform supervision with respect to second-pillar insurance should also be sought. Furthermore, the procyclicality seen by the insurance industry in the Swiss Solvency Test (SST) should be restricted.

4.3.2 Development possibilities

4.3.2.1 Personal lines insurance

Despite the fact that the Swiss insurance market already has a very high insurance density on a per capita basis, there is still some growth potential in certain areas. This applies to single life insurance in particular (single premium insurance). The current financial crisis has shown there is a shift towards single life insurance with an interest rate guarantee, in part because of the security associated with it. The insurance industry believes that the taxation of life insurance premiums introduced in 1998 has had an adverse effect on this business in recent years and that the former legislation should be restored as a matter of urgency. The insurance industry also sees a need to remove regulatory barriers that, with too much emphasis on consumer protection, impose restrictions on flexible and innovative product development. The expansion of the 3A pillar to include those not in gainful

¹⁶ Undertakings for Collective Investments in Transferable Securities

employment as well as a better tax treatment of the 3B pillar (higher tax deductions) could also act as a source for growth. Owing to the increasing life expectancy both within and outside of Switzerland and the associated increase in the percentage of people requiring care, the market for private care insurance or long-term care insurance products is growing. Such growth could also be boosted substantially by the introduction of a separate care insurance system. Most of the lines of business mentioned would also be attractive to foreign customers, but this would call for the corresponding market opening/access with the associated conditions (recognition of equivalence of regulation and supervision, conclusion of an agreement with the EU and negotiation of bilateral agreements with other states, adaptation of the corresponding laws). Based on the high penetration levels within Switzerland, most of the potential for raising the share of GDP lies in foreign business.

The insurance industry gives particular attention to the creation of a pension hub¹⁷ in Switzerland. The introduction of the EU Pension Funds Directive was an important step towards a pan-European pension fund market and has become an important international factor in attracting businesses within the EU. Based on its extensive know-how and vast experience in the pensions business (3-pillar system), Switzerland is very well placed to join in on the competition, with more than EUR 2,500 bn in assets under management at stake. It already meets the actuarial conditions. If Swiss insurance companies are to participate in this competition and Switzerland is thus to become an attractive base for the European headquarters of international insurers, the following measures, among others, should be examined:

- Mutual recognition of the prevailing supervisory systems (for individual and group supervision) as well as the associated regulation and harmonisation of product requirements and the tax framework;
- Market access to the EU, e.g. by concluding a (financial) services agreement or by extending the existing insurance agreement or concluding bilateral free-trade agreements with non-EU states;
- Harmonisation of the law on occupational pensions (BVG) with the EU Pension Fund Directive. In order to prevent costly segregation mechanisms, the “Liechtenstein Model”, allowing for a parallel organisation for cross-border business, is an option which is already successfully used in the EU.

For Switzerland to be a competitive location, the insurance industry believes it is indispensable for Swiss regulation to be competitive internationally. With respect to the second pillar, this concerns, among other things, the minimum interest rate, the minimum conversion rate and the legal quote; concerning the third pillar, it relates to the requirements under supervisory law, which affect modernisation and flexibility of products.

4.3.2.2 Reinsurance

Switzerland has become the world’s fourth largest reinsurance centre, thanks to its stability and the many advantages it offers as a location, together with the synergies from the financial cluster. According to the insurance industry, safeguarding international market access and ensuring international compatibility of the supervisory systems are crucial to further expanding the reinsurance cluster. It is also important to retain the country’s existing advantages for reinsurance and amplify these to make it even more attractive (promote training in risk and finance, efficient and effective regulation, simplification of the tax system, attractive tax environment, etc.). At present, the Swiss reinsurers are seeking potential for growth abroad, which is why non-discriminatory access to foreign markets is so crucial (no state intervention in the market mechanism, the equivalent requirements in terms of collateral and taxation of premiums, etc.).

¹⁷ A pension hub refers to international pension business that would operate in Switzerland to provide services in other countries, particularly in EU countries.

The opportunities for growth or new lines of business in reinsurance (and in primary insurance) lie in combined insurance/capital market solutions covering natural disaster risks, weather risks, business interruption, credit default, longevity or pandemic risks. The new business areas can only be realised with a regulatory framework that permits innovation. Another possibility for growth in the Swiss insurance market lies in the establishment of in-house insurers (“captives”)¹⁸, which are currently particularly prevalent in Liechtenstein and Luxemburg. This would require an amendment to Swiss legislation, such as the regulation of special-purpose entities, needed for securitising insurance risks on the capital market, and greater differentiation in the regulation and supervision of captives and other insurance companies.

4.3.2.3 Non-life insurance

Given the saturation of the Swiss market, particularly in non-life insurance, the growth possibilities for the Swiss insurance industry lie primarily in business operations abroad or new products within Switzerland (cf. comments in this respect in 4.3.2.2 above). One particular area of potential growth is the neighbouring areas around Switzerland's borders, which are estimated to be worth an additional EUR 500 m in premium volume. As previously mentioned with respect to the other areas, this is only possible with the necessary market access, which currently exists only in the form of a right of establishment, together with the associated prerequisites, i.e. equivalence of regulation and supervision.

4.4 Infrastructure

The Swiss financial market infrastructure is operated under the aegis of SIX Group. Essentially, it comprises the infrastructures for securities trading (SIX Swiss Exchange), securities clearing, settlement and custody (SIX x-clear and SIX SIS) as well as for payment transactions (SIX Interbank Clearing). Known as the “Swiss Value Chain”, this infrastructure – which is fully integrated and thus highly efficient – is a major factor in the success of the Swiss financial centre.

Not so long ago, national infrastructure companies held a monopoly in their respective markets; now, however, they now face intense competition, which is increasingly becoming global. Harmonisation of regulatory aspects has reduced the market access barriers and created a level playing field for existing and new infrastructure providers. With increasing standardisation of infrastructural services, intense competition has emerged with respect to prices, resulting in a rapidly advancing consolidation process in certain areas.

In light of such developments, SIX Group is faced with the challenge of having to defend its strong position at home while also achieving international growth, so as to reach the critical mass it needs to ensure sustained competitiveness, given the high fixed costs in infrastructure and continuing consolidation. Achieving these objectives will also depend on the regulatory and legislative framework, which are summarised below for securities trading, securities settlement and payment transactions.

4.4.1 Securities trading

In securities trading, SIX Swiss Exchange faces fierce competition from new, alternative trading platforms following the deregulation of securities trading with the EU Markets in Financial Instruments Directive (MiFID). These platforms, known as Multilateral Trading Facilities (MTFs), focus on the lucrative trading in blue chip equities and, thanks in no small part to their comparatively low regulatory requirements, have wrested substantial market share from conventional exchanges. SIX Swiss

¹⁸ Captives are company-owned insurance firms that insure the parent company's in-house risks.

Exchange is thus now faced with the challenge of holding on to its status as the reference market for Swiss equities (the reference market in terms of securities is the market with the greatest liquidity and transparency and the lowest transaction costs). If MiFID continues to cause fragmentation of trading in Swiss (and European) equities, it will not be possible to operate or maintain some of the non-profitable additional services offered by SIX Swiss Exchange or regulatory tasks in the long term.¹⁹ This would also compromise the political and regulatory objective of minimising transaction costs for the end-investor through higher liquidity and transparency. In this context, efforts should be made internationally to ensure uniform regulatory requirements for all trading platforms and exchange-like institutions. At a domestic level, discussions should be held to determine the extent to which the costs of those activities still conducted by SIX Swiss Exchange and funded to date by stock exchange trading should be borne separately by the respective beneficiaries.

4.4.2 Securities settlement

In securities settlement, the European Central Bank's (ECB) Target2-Securities (T2S) initiative, which seeks to create a centralised European settlement infrastructure, is likely to change the market structure fundamentally in that all business will in future be operated by the ECB. The main challenge facing SIX Group is obtaining equal access to the future European infrastructure. At the same time, the Swiss Value Chain should be maintained on account of its efficiency and its strategic significance for the Swiss financial centre in the settlement of Swiss securities in Swiss francs. To protect the interests of the financial centre and to preserve the competitiveness of SIX Group, talks should be held with EU institutions in close cooperation with the federal government, the SNB and SIX Group. Particular emphasis should be placed on the following points:

- Enabling direct access to the ECB's T2S infrastructure, preferably through a direct link from SIX SIS to T2S
- Maintaining a regulatory framework that ensures a functioning Swiss Value Chain and fair competition.

4.4.3 Payment transactions

With respect to payment transactions, the objective of equal access to the European market was met two years ago with the inclusion of Switzerland in the Single Euro Payments Area (SEPA). Switzerland participated in the launch of SEPA Credit Transfer (euro payment transfers) at the end of January 2008 and in the launch of SEPA Direct Debit (euro direct debits) in November 2009. Concerning charges, there are currently individual cases of discrimination with respect to Swiss banks, with European financial institutions arguing that Regulation 2560 on the equality of charges for cross-border payments in euros is not applicable to Swiss banks, even if Switzerland is now in the SEPA zone. This issue, however, is expected to clear up by itself in time. Swiss franc payments in central bank money should also continue to be exclusively settled via the Swiss Interbank Clearing at the SNB.

¹⁹ e.g. equities trading for mid and small caps or market monitoring

5 Objectives

Financial market policy forms part of economic policy and seeks to promote prosperity. There are four objectives to be met in this respect, which are, to a certain extent, both interdependent and conflicting. Financial market policy thus always strives to optimise rather than maximise individual target values. A cost-benefit analysis is indispensable when setting the regulatory framework.

Financial market policy forms part of economic policy. Economic policy seeks to promote prosperity (Art. 2 (3) Cst.). Under the principles of the economic system, the Federal Constitution states that the Confederation (and cantons) are responsible for ensuring favourable conditions (Art. 94 (3) Cst.). The following objectives of financial market policy are derived from this mission:

- Provide high-quality services for the economy
- Ensure favourable conditions for a high value-added financial sector
- Ensure high system stability and functionability
- Preserve the integrity and reputation of the Swiss financial sector

The business conditions for financial market policy comprise, apart from financial market regulation and supervision, the monetary, budgetary and tax policy as well as the preservation of an open and flexible labour market, a high standard of education and a well-functioning infrastructure. International competitiveness is of key importance. Only under competitive business conditions can the financial sector provide optimum services and make an important contribution to value creation. This is only possible if all players strive towards innovation, i.e. there is a regulatory framework in place to stimulate innovation. Important characteristics of competitive business conditions are their predictability and comprehensiveness.

5.1 Provide high-quality services for the economy

The core function of the financial sector is to maximise customer benefits by providing efficient high-quality services, thereby fostering the development of the Swiss economy. Well-functioning markets should ensure that consumers and corporations can best meet their needs in terms of investment, credit and security. This overall economic function also includes efficient financial infrastructures so as to enable, for instance, flawless payment transactions or securities trading. In doing so, the financial intermediaries have to equally address the needs of the domestic economy as well as those of the close international independence between the Swiss economy and international clients.

5.2 Ensure favourable conditions for a high value-added financial sector

A flourishing, export-oriented financial sector forms an important pillar of prosperity and employment for a country as low in natural resources as Switzerland. The financial sector can only continue to make an important contribution to GDP if it consistently takes on an international orientation and if it is able to seize the corresponding earnings opportunities.

5.3 Ensure the highest possible system stability and functionability

The efficiency and stability of the financial sector are important prerequisites for a well-functioning economy, i.e. for creating prosperity. Only within a stable financial system can the financial centre function sustainably and develop over time. Globalisation raises the risk of local crises quickly

escalating into global crises. As the recent financial crisis has shown, the Swiss financial sector is not immune to the developments on other markets. Home-grown negative developments can also threaten the stability of the financial sector. Protecting the functionality of the financial system is a core objective of supervisory activities.

Financial stability or system stability exists when the financial markets and their players – banks, insurance companies, stock exchanges, settlement systems, money and currency markets, etc. – fulfil their allocative function satisfactorily, even in the case of a major shock or in crisis situations. Financial stability does not preclude price fluctuations in financial assets – even where these are quite substantial – or the insolvency of individual financial institutions. Price fluctuations and insolvencies only pose a threat to system stability if they jeopardise the fundamental role of the financial system as an allocative mechanism.

5.4 Preserve the integrity and reputation of the Swiss financial centre

Integrity and the concern for a sound reputation must constitute a decision-making factor for all players. Furthermore, integrity is a key requirement today for the financial centre and its international acceptance. Preserving integrity is, on the one hand, the market participants' own responsibility and, on the other hand, a task of appropriate regulation and supervision. Switzerland's regulatory framework is guided by the internationally recognised standards in prudential regulation, in the prevention of financial market abuse for criminal purposes, and with respect to taxation. This minimises reputational risks.

5.5 The need to optimise target values

These four objectives of financial market policy are, to a certain extent, both interdependent and conflicting. Thus, measures taken to attain one objective may affect the attainment of another either positively (harmony of objectives) or negatively (conflict of objectives) or may have no impact whatsoever on it (neutrality of objectives). For example, extremely competitive business conditions allow for not only a broad range of high-quality services for companies and consumers but also create employment in the financial sector. On the other hand, overly restrictive regulation in an effort to prevent systemic or reputational risks may jeopardise jobs and value creation in the financial sector and result in an inadequate offering of high-quality, reasonably priced financial services for the business sector.

Given this situation, it is clear that financial market policy should always seek to optimise among the various objectives rather than maximise individual target values. It is therefore absolutely necessary to conduct a cost-benefit analysis when defining the policy. Financial market regulation must thus address both the regulatory objectives as well as the potential repercussion of such measures on the rest of the economy. The respective clarifications need to be made as early as possible in the regulatory process²⁰.

²⁰ Cf. "Guidelines for financial market regulation" adopted by the FDF in 2005

6 Strategic directions

The Swiss financial centre is facing major challenges. Against the backdrop of the current and anticipated changes, the global financial sector is expected to contract for structural reasons. Internationally, new strategies are being developed, business models overhauled, the balance of power in markets is shifting, and rules are being renegotiated. There are four strategic directions to achieve the objectives of financial market policy outlined in Chapter 5.

6.1 The Swiss financial centre of tomorrow

The Swiss financial centre of tomorrow should consolidate and expand on its position as one of the world's leading financial centres. It should be able to meet the entire economy's needs in terms of investment, credit and security, at the best, and facilitate flawless payment transactions and securities trading with an efficient infrastructure. It should then go on to make a significant contribution to GDP, create jobs and bolster the reputation and stability of Switzerland and its economy. The objectives of financial market policy outlined above are to be attained following four strategic directions. These issues are of relevance to the economy as a whole. Therefore, implementation of the most important measures will form part of the Federal Council's future growth policy.

- Improving the international competitiveness of the financial sector (cf. 6.2)

The Swiss financial industry has to be competitive. The financial market players should offer a wide range of high-quality services that best meet their clients' various requirements. Financial services providers need to demonstrate innovation and flexibility to continuously adapt to and help shape new developments on national and international markets. The state should create the conditions conducive to achieving this goal. To this end, it will actively participate in international bodies and institutions, keep abreast of trends on other financial centres and adapt Switzerland's regulatory framework as necessary. The conditions required for a flourishing financial sector are: a regulatory framework in line with internationally recognised standards, a robust and stability-oriented monetary and budgetary policy, a high standard of education, and open and flexible labour markets. This also includes a functional financial-market infrastructure, the protection of privacy, and an attractive tax regime for the financial sector and the economy as a whole. In order to take due account of certain peculiarities of the Swiss financial centre, Switzerland reserves the right to make differentiations with respect to international regulation. Efforts should be made to take the regulation beyond international guidelines where this is appropriate or necessary for structural reasons or in order to procure competitive advantages. The relevant authorities, and FINMA in particular, should ensure that the issue of competitiveness is sufficiently addressed in current and future regulation projects.

- Securing and enhancing market access (cf. 6.3)

Switzerland should continue to bolster its character as an international and open financial centre. This means not only allow foreign financial market players to access the Swiss market but also ensure that the Swiss market participants receive equal and non-discriminatory access to markets abroad. Given the growing protectionist trend, efforts must be stepped up to secure and enhance long-term market access for Swiss financial intermediaries.

- Strengthening the financial sector's resistance to crisis and dealing with systemically important financial institutions (cf. 6.4)

Only a stable financial sector can create lasting prosperity and warrant the financial sector's fundamental role as an allocative mechanism at all times. Large financial institutions provide services of importance to the entire economy and importantly contribute to the international significance of the financial sector. They also bring certain risks, however, which tend to come to the fore in times of

financial crisis. These risks are especially high in Switzerland, where certain financial institutions are disproportionately large with respect to the size of the economy as a whole. Measures will thus have to be taken to make systemically important companies less vulnerable in times of crisis, to reinforce central infrastructures, and to allow for the orderly unwinding of structures and institutions that have failed on the market.

- Preserving the integrity of the financial centre (cf. 6.5)

The Swiss financial centre should stand for stability, predictability and integrity. With respect to the legal framework, integrity and predictability help boost clients' confidence in the Swiss financial market and foster its acceptance within the international environment. The foreign states' interest in implementing their tax legislation should be harmonised as far as possible with Switzerland's long-term interests. Under certain conditions (regularisation of undeclared accounts vis-à-vis the relevant state's tax authorities, enhanced market access for financial services provided from Switzerland, protection of bank client privacy), the Federal Council is prepared to extend existing cross-border cooperation within the scope of bilateral negotiations. Various measures need to be examined to address these demands, such as the introduction of a final withholding tax in relations with important neighbouring countries and other measures to promote taxpayers' compliance among bank clients and thus reduce the associated legal risks. In addition, Switzerland continues to be actively involved in international efforts to combat financial market crime.

6.2 Improving the international competitiveness of the financial sector

Switzerland has an important financial industry that must strive to be successful in international competition. In terms of employment, value creation and tax earnings, it is a leading pillar of the economy, making an above-average contribution to Switzerland's prosperity. Only if this competitive nature can be maintained will it be possible to attain the objectives set out in sections 5.1 and 5.2.

In reinforcing competitiveness, it is important to distinguish between the roles of the public and private sectors with respect to a market-based sense of order. For instance, it is up to the private sector to develop business lines, foster talent through specific training opportunities, deploy efficient technologies and create innovations. Apart from raising the efficiency levels in existing businesses, innovations also make it possible to create or promote new lines of business with high added value. The players must continuously strive to improve the quality of their services, including adopting a risk-conscious and sustainable business policy at all times.

The state's duty is to create and enforce the necessary conditions that address the various objectives of financial market policy (cf. Chapter 5) and promote innovation capacity. The state can choose a number of different approaches to achieve this. The strengthening of international competitiveness by improving the general, regulatory and tax framework is of primary importance.

6.2.1 General conditions

The conditions created by the state shape the business to a large extent and thus also the competitiveness of the financial industry.

Macroeconomic stability

One of the state's objective to provide business-friendly conditions is to ensure macroeconomic stability, in particular monetary and fiscal stability. The current financial and economic crisis has clearly highlighted the importance of stability for Switzerland as a financial centre. A sustainable financial and budgetary policy, a stable currency and a generally stable political environment bring important advantages in terms of international competition. Switzerland is in a relatively comfortable position. State intervention in the course of the financial crisis was done at a significantly lower scale than in

certain other OECD countries (cf. 2.3.2), and public finances were balanced at the onset of the crisis. A series of consistent restructuring efforts in recent years have enabled Switzerland to prevent its public debt from rising; in fact, debt has actually been reduced. Once the economic crisis has passed, the emphasis will be on pursuing a policy of budget consolidation. Moreover, the SNB's strong balance sheet has enabled it to take certain risks during the crisis. Subsequently, based on the modern National Bank Act, the SNB has been able to quickly introduce the instruments needed to deal with the crisis.

An open and flexible labour market

As a small country with a wide range of financial services, it is difficult for Switzerland to create the necessary know-how in all business areas. Many of the financial services provided in Switzerland are highly specialised. It is therefore important for Switzerland to have a flexible and open labour market. This is a prerequisite for financial firms to be able to respond promptly to evolving client requirements (cf. 6.3.3.1).

Standard of education

One of Switzerland's advantages is its high standard of education at all levels. This should be maintained and reinforced for the long term. A high standard of education and training in finance is particularly important for the innovation capacity of the Swiss financial industry. It also consolidates the level of expertise in the financial sector and Switzerland's reputation as a financial centre. Both the state and the private sector are responsible for this in equal measure²¹.

Maintenance of an efficient and independent financial market infrastructure

Essentially, the financial market infrastructure comprises the stock-exchange and trading platforms and the downstream systems for clearing and settlement of payments and financial instruments. These technical facilities, albeit rarely in the limelight, are crucial to the financial system. Stable and efficient payment and settlement systems help ensure that transactions conducted on the financial markets are processed securely and efficiently. They thus make an important contribution to improving the international competitiveness of the financial sector. At the same time, warranting secure payments transactions is decisive for maintaining system stability (cf. 5.3). The SNB plays an important role in this respect.

Operators and market participants, i.e. some 160 banks of varying sizes and orientations that participate in SIX Group as shareholders, are primarily responsible for ensuring that the payment and settlement systems function perfectly at all times in order to meet the needs of the financial sector. The state's role is to set the necessary regulatory barriers. These guidelines should, however, be formulated as targets, allowing market participants the freedom to attain them as efficiently as possible. As in other areas of financial market regulation, the financial market infrastructure must find the right mix between the self-responsibility advocated by a market economy and state intervention. Of central importance for the state is the stability of the financial market infrastructure. At the same time, however, the private sector must have sufficient leeway to respond to new challenges innovatively and efficiently. A fully functional financial infrastructure makes an important contribution to market stabilisation, particularly in times of crisis.

Broad range of corporate funding possibilities

The general business conditions comprise ensuring a sufficient supply of credit as well as an efficient capital market that offer fast and cost-effective financing possibilities to the business community.

²¹ The establishment and expansion of the "Swiss Finance Institute" foundation in 2006 is a classic example of how a focus on research can contribute to the sustainable and coordinated expansion of educational and research structures in Switzerland. This public-private partnership comprising the SBA, the Swiss Exchange, the six universities involved in the research focus and the federal government has enhanced cooperation among key players in research and in management training in the financial sector.

Compared with the highly competitive equity market and the structure of capital markets in similar countries, the Swiss bond market is underdeveloped. A comprehensive and liquid bond market with an appropriate infrastructure and thus more issues in Switzerland would enable firms to better diversify their financing, thereby increasing stability and transparency in the financial system.

Protection of privacy

As a concrete implementation of the protection of privacy enshrined in the Federal Constitution (Art. 13 Cst), which also covers individuals' assets, the Swiss banking secrecy is an integral component of Switzerland's democratic tradition. It forms part of the Swiss definition of the right to personal privacy and is an expression of the mutual trust between the Swiss state and its citizens. At the same time, banking secrecy under private law guarantees bank clients a right to privacy from their bank. Banking secrecy thus protects the financial privacy of citizens from the state or other individuals.

International pressure on Swiss banking secrecy has intensified sharply since the start of the economic and financial crisis. Switzerland has responded to the changing situation by adapting its policy on mutual administrative assistance, thereby sending out a further signal that Swiss banking secrecy does not offer any protection against the prosecution of offences (including tax offences). Switzerland has been active for many years in the prevention of international financial crime. To maintain their legitimate interests, however, bank clients should not be denied the protection of privacy engrained in Swiss tradition. In this respect, banking secrecy should continue to exist in the future (cf. 6.5.2).

Tax environment

The tax environment is an important factor in competitiveness. Maintaining and reinforcing the country's attractiveness as a business location is a key element in Swiss fiscal policy. The structure of the tax system, the extent of the tax burden and existing double taxation treaties for cross-border business directly affect companies' cost structure and thus their competitiveness. For multinationals, in particular, tax-specific aspects play a large role in cost management and are an important consideration in deciding on a business location. Attractive tax conditions should be used to draw mobile factors of production, such as capital and a highly qualified workforce, and dissuade their departure. These objectives are not specific to the financial market but apply to tax policy as a whole (see 6.2.3 below on Switzerland's tax regulatory framework).

6.2.2 Regulatory framework

Effective and efficient financial market regulation, together with effective supervision, creates competitive advantages for the financial centre. Formulating a legislative framework that allows for competitiveness is, however, something of a balancing act, resulting from various trade-offs and the search for equilibrium between different interests. Adverse economic repercussions of market failures should be minimised through appropriate financial market regulation. This should safeguard the profitable functioning of the financial sector and the allocative efficiency of the economy as a whole.

Switzerland has a competitive regulatory framework and an integrated financial market supervisory system. The regulatory framework are set by the legislator, FINMA, in the area of financial market infrastructure also by the SNB, and – within the context of self-regulation – by market participants.

FINMA's Board of Directors has set out seven overriding strategic targets for the years 2010 to 2012, which were passed by the Federal Council on 30 September 2009. These objectives substantiate FINMA's mission, as set out by law, to exercise supervision of the financial market participants in order to protect creditors, investors and insured persons and to safeguard the functioning of the financial markets. The objectives defined by FINMA that apply to overall regulation of the financial sector are discussed below.

Allowing market forces to develop

For the functioning of an efficient financial system, it is indispensable that market forces be allowed to play. In principle, regulation should give market participants sufficient incentives to eliminate any inefficiencies of their own accord.

Safeguarding client protection

This primarily concerns the rules on protecting creditors, investors and insured persons. Client protection is ensured by way of a comprehensive prudential supervision of individual institutions, with a view to making the supervised areas more resistant to crisis and also to secure clients' claims in the case of a crisis and ensure correct settlement. One topical example is the current revision of the Swiss depositor guarantee scheme (cf. 6.4.3). Furthermore, there is also a need for directives that will set high requirements for transparency and risk disclosure in the trading and distribution of products and allow for the rigorous implementation of market supervision rules. For example, FINMA is calling for appropriate due diligence, disclosure and information requirements when distributing financial products, is extending risk-oriented supervision with respect to collective investment schemes and is stepping up the fight against unauthorised providers.

High-quality regulation

High-quality regulation is simple, clear and comprehensive. This helps to create confidence among market participants, attenuate regulation arbitrage and reduce the financial institutions' implementation costs. Regulation must be suitably harmonised and, at the same time, take duly account of the specific risks of the various areas under supervision. In principle, regulation should take a functional and product-neutral approach. As to regulation in the insurance sector, there should be, for instance, harmonisation with respect to the different solvency systems. An important step here is the recognition of equivalence of SST with Solvency II. Another goal, in the longer term, is to conduct the solvency check in Switzerland exclusively on the basis of SST and to omit an additional check based on Solvency I.

High-quality regulation must continue to be aligned with international best-practice standards in order to obtain the required acceptance abroad. Nonetheless, international regulatory developments should not be simply adopted without a detailed study. As the specific characteristics of the Swiss financial market need to be taken into account, Switzerland retains the right to examine and utilise the opportunities and possibilities of deliberate differentiation, along with its commitment to adopt international regulatory standards,. It also has a degree of flexibility in the implementation of international standards to adopt a different application adapted to national circumstances.

For example, in the regulation of rating agencies and hedge funds, analyses are needed to decide how to respond to the proposals of the G20 nations. As it stands today, it appears not to be in Switzerland's interest to resist such developments. Preliminary work in this field is underway.

As a basic principle in the creation of regulation, the overall economic benefit of a regulatory measure should be greater than the associated overall economic costs. The need for regulation must be clarified in detail in advance and the impact of individual courses of action determined. Such research should determine whether regulation is necessary at all and, if so, which legal form – law, ordinance or self-regulation – is best suited. Finally, attention must be paid to a proportionate implementation of planned regulation. It is particularly important, when drafting the national regulation, to avoid competitive disadvantages with respect to other financial centres. This calls for an overall view of the effects and counter-effects of regulatory measures.

In drafting the regulation, the federal authorities responsible for this should work closely together in a transparent regulatory process, including as far as possible those affected (e.g. banks, insurance companies, funds providers, etc.), representatives of the relevant professional associations, consumer

protection organisations and the public. A transparent and forward-looking regulatory planning process should make it possible to consider national and international developments and their possible repercussions at an early stage²².

Greater involvement in international standards setting

The main international standard setting bodies are the FSB, the IMF, the FATF, the OECD, the BCBS, IAIS and IOSCO. By participating in these international bodies, Switzerland has the opportunity to help shape international standards and, in doing so, draw attention to its relevant experience at home and to the associated results. Switzerland thereby also takes the opportunity to obtain international acceptance of Swiss standards in key areas. Deviations from international standards are acceptable where these are necessary or make sense for structural reasons to achieve competitive advantages. To reinforce its commitment, Switzerland needs additional resources in the public sector. Furthermore, coordination between the individual federal authorities and with the private sector must be further intensified and improved.

Supervision and enforcement

High-quality regulation is only one aspect. Another aspect is effective and efficient supervision²³. FINMA, whose task is to supervise in accordance with the financial market legislation, consistently takes a risk-based approach in all areas. To this end, it intends to develop new key figures and improved assessment mechanisms and make targeted use of audit companies and investigators. To ensure effective enforcement in the area of stock market offences, FINMA is striving for a tightening of the sanctions toolbox and for simplifying the procedures involved. Based on its experience drawn from the crisis, the SNB is seeking to intensify its macroprudential analysis and supervision.

Predictability and promotion of legal certainty

The predictability of the legislative and institutional regulatory conditions is a traditional strength of Switzerland and an important basis for the long-term success of its financial sector. It has suffered somewhat from the turbulence generated by the financial crisis. In the heavily regulated financial sector, however, legal certainty and plannability engender confidence in depositors, insured persons and investors.

6.2.3 Tax framework

6.2.3.1 Pros and cons of the prevailing tax framework

Location-related decisions concerning mobile production factors, such as capital and a highly qualified workforce, depend on several parameters. Taxes play a key role here: they constitute incentives for working, saving, education and financing, and are thus of relevance to growth and earnings. Switzerland is generally regarded as an attractive business location in terms of taxes. The highly decentralised tax powers and direct democratic rights make for a moderate tax climate.

Switzerland is in favour of tax competition, both within Switzerland and internationally. It sees this as a regulating factor that encourages public-sector decision-makers to make economic use of the financial resources in their trust. It forces politicians and authorities of competing locations to optimise both the attractiveness of the public services and the tax burden²⁴.

²² Cf. FDF brochure "Guidelines for Financial Market Regulation", September 2005 and the OECD Policy Framework for Effective and Efficient Financial Regulation, 26 November 2009.

²³ For example, FINMA is examining ways of accelerating the approval process for alternative investments.

²⁴ Switzerland's fiscal concept also includes tax competition among the cantons and thus also their autonomy with respect to tax rates. It rejects the idea of a substantive tax harmonisation, i.e. coordinating the tax rates,

Taking the economy as a whole, Swiss fiscal policy also addresses the particular features of the financial sector. The protection of privacy for both Swiss and foreign bank clients, an important concept in asset and wealth management, continues to be upheld with the inclusion of Art. 26 of the OECD Model Tax Convention in the bilateral DTTs. The tax-related banking secrecy of persons liable to taxation abroad has been curtailed, as information may now be handed over irrespective of whether or not there is a tax offence. However, tax-related banking secrecy remains intact insofar as information is only forwarded to partner states in individual cases and upon a specific and justified request for such information. Moreover, certain financial products are subject to special tax rules (e.g. privileged income-tax treatment of life insurance policies, the levying of stamp duties on certain insurance products, the exclusion of insurance products from value-added tax). The withholding tax is also aligned to the needs of the wealth management business. Turnover tax also refers directly to the financial sector and has been adapted to international development several times in the past (specifically, market access for foreign participants was alleviated through a series of measures). Finally, there are also special provisions concerning value-added tax for the financial centre, which essentially correspond to the solutions in other countries²⁵.

Tax policy should not be a sector-specific policy; it should be oriented to the entire economy. It must meet the criteria of competitiveness, tax fairness and efficiency for the entire Swiss business and financial centre.

With respect to the competitiveness of the Swiss financial marketplace, the tax conditions are generally more advantageous than those of other countries. These advantages should be maintained.

Concerning corporate taxation, the low tax burden of public limited companies (banks, insurance firms, etc.) should be noted. The advantages here include both the tax burden and the practice of provisioning and depreciation. The taxation of holding, trading and service companies is competitive internationally.

Concerning debt financing, corporate groups – including financial groups – can obtain the debt capital they need by issuing bonds abroad without any withholding tax (although these may not be returned to Switzerland). It should also be mentioned that in Switzerland there is no withholding tax on capital gains and no source tax on foreign securities²⁶.

Switzerland's tax system is internationally broad-based and offers the greatest possible predictability and planning certainty to companies and private individuals. Within the scope of its bilateral relations with its main trading partners, Switzerland has entered into double taxation treaties with over 70 states. With the taxation of savings income agreement with the EU, Switzerland reached a mutually acceptable solution with its main trading partners for the taxation of interest earnings.

Finally, Switzerland also offers advantageous tax conditions for natural persons, apart from the high standard of living and attractive financial services. This is particularly important to attract a highly qualified workforce for our economy and dissuade their departure.

allowances and deductions of all cantons, as this would eliminate the benefits of tax competition and would be irreconcilable with a federal state structure. Formal tax harmonisation, however, is regarded as a basis for healthy tax competition, increasing transparency and legal certainty. The clause in the Federal Constitution on the harmonisation of taxes establishes the principles for the legal provisions in the cantons and municipalities concerning tax liability, tax object, taxation period, and procedural and criminal law on taxation. These principles are enacted in the Federal Act on the Harmonisation of Direct Cantonal and Municipal Taxes.

²⁵ For instance, interest margin-based activities can only be recorded for VAT purposes with very complex procedures.

²⁶ Exception: EU taxation of savings income.

6.2.3.2 Ongoing reforms concerning the financial sector

Changes in society, the state and the economy also call for constant action in the Swiss taxation system. Taxation is in a state of upheaval around the world, with repercussions on Swiss tax policy. The current tax-policy reform agenda is guided by the following objectives:

- The dismantling of tax distortions, particularly in corporate taxation, should generate positive repercussions on growth and employment.
- Tax reforms should make Switzerland a more attractive business location.
- Taxation should be simple and fair.
- Reforms should be fiscally sustainable.

Some complex tax reform projects are currently in the consultation phase or have already been adopted by Parliament. The key points of the reforms of particular significance to the Swiss financial centre are outlined below:

More growth by reforming corporate taxation

Corporate Tax Reform II (CTR II) was accepted in a referendum on 24 February 2008. CTR II removes investment barriers and obstacles to the development of small and medium-sized enterprises (SMEs) and thus seeks to stimulate growth. Specifically, the alleviation of the economic double taxation (with lower taxation of dividend earnings of shareholders involved in the business) creates incentives to make venture capital available to companies. CTR II also allows cantons and municipalities to offset profits tax against capital tax, which can lower the tax burden of capital-intensive businesses.

At the start of December 2008, the Federal Council commissioned the FDF to draw up a consultation draft for another corporate tax reform package (CTR III). The core elements of this reform are the abolition of the issue stamp duty on equity capital, the elimination of tax barriers to group-level financing and the improvement of the system of participation relief. The regulation on international and intercantonal allocation of taxes will subsequently be adapted. The Federal Council is proposing further adjustments in the cantonal tax status. For holding companies, there are plans to introduce a general ban on business activities and reduced taxation of the ancillary earnings of such companies at a cantonal level. For mixed companies, a minimum taxation of foreign earnings is to be introduced at a cantonal level. Finally, the status of “domiciliary company” is to be abolished.

VAT reform

With three different tax rates and 25 exceptions, value-added tax (VAT) has created considerable problems of definition and important administrative work implications. Estimates put current collection costs at nine percent of all federal VAT revenues.

In June 2008 the Federal Council adopted a message to reform VAT in two separate parts. Part A of the reform, passed by Parliament in June 2009, entails some major simplifications and reduces formalities. Specifically, this first part comprises a completely overhauled VAT law with simplifications and material changes in over 50 points.

Part B, proposed by the Federal Council but not yet debated by Parliament, plans to introduce a 6.1% uniform tax rate and remove numerous exemptions (though not in banking and insurance), which should help to encourage growth. The Federal Council has decided to submit a complementary message to the parliamentary commission for this part of the draft so as to take account of recent changes.

The financial industry is relatively unaffected by Part A of VAT reform. Part B would have the effect of reducing the “taxe occulte” or hidden tax on VAT-exempt insurance and banking services.

Group-level financing

The FDF is currently examining how the tax framework may be improved with respect to group-level financing. These investigations focus on adjustments to the withholding tax and issue stamp duty. With a view to long-term reinforcement of the capital market, the abolition of withholding tax on bonds should also be examined for the medium to long term. In the interests of securing taxation, the withholding tax could be replaced in this case by a paying agent tax. Such a paying agent tax could also help promote cross-border wealth management business if it is final in nature with respect to foreign tax authorities.

The changes described here would make a considerable improvement to the tax framework for the Swiss capital market and thereby offer Swiss companies a means of diversifying their financing possibilities in the bond market. It is not yet possible to assess conclusively the domestic and foreign policy opportunities of introducing a paying agent tax that is final in nature.

Adapting to the new stock-exchange circumstances

On 23 June 2009 the Committee for Economic Affairs and Taxes of the National Council (WAK-N) approved a parliamentary initiative that envisages the repeal of three articles in the Stamp Duties Act. This will exempt foreign members of the Swiss Exchange from having to pay any stamp duty. The loss in income from stamp duty should be more than compensated for by additional income in corporate taxation, as the former profits of SWX Europe in London will in future be taxed in Switzerland. Since this legislation has not yet come into force and exchange trading in Swiss blue chips resumed in Switzerland on 4 May 2009, an interim solution was found in enforcement of the law.

Private equity and hedge fund managers

With respect to alternative investment funds, the emphasis is on regulation as well as their tax treatment. In its general shaping of the regulatory framework for hedge funds and private equity, Switzerland is guided by international standards, as currently drafted by IOSCO. The issue of the tax treatment of compensation models for private equity and hedge funds within the various legal fund structures and fund models was heavily debated in talks between the financial sector and public authorities (cf. Chapter 1). The focus was on the compensation components of management fees, performance fees and carried interest. Recent findings can be used to examine in further detail future directions for making the Swiss financial centre more attractive in the area of hedge funds and private equity. In September 2008, STAFI announced, in the interests of improving legal certainty, its concerns on a circular issued by the FTA. This work indicated that the circular could not create the required level of legal certainty. Nonetheless, it is possible to clarify the tax repercussions of specific cases in advance with the relevant tax authorities. In this case, the tax authorities base their decision on principles set out in the draft circular. A relatively attractive tax situation with respect to other countries may be attained with the corresponding structuring of private equity or hedge funds, the companies associated with the funds and their guarantors within the scope of the prevailing law. For private equity and hedge fund managers, Switzerland offers a highly advantageous tax framework in comparison with other countries. These advantages should be better communicated to fund managers operating abroad and better publicised internationally. However, there are no plans to grant tax privileges to hedge fund managers.

6.2.3.3 Outlook for future tax reforms

With a view to optimise the Swiss taxation system for the long term, the tax framework should minimise or eliminate the effects found to distort the market. Certain tax rules prevent some financial services from being developed in Switzerland. Detailed studies will be necessary before possible suitable solutions can be identified.

The main agenda for Switzerland is to examine the withholding tax system in detail and to seek tax-equivalent alternatives to stamp duties. There is no doubt that both withholding tax and stamp duties generate market distortions in some areas and thus have an adverse effect on certain elements of the

financial sector. In this respect, the sector's request for abolition of these taxes is easily understood. Suitable alternatives must thus be found for the future.

The abolition of taxes, however, automatically raises the core question of alternative financing of such tax relief. This is an issue that should also be kept in mind.

In recent years, Switzerland has managed to avoid a further increase in debt. The crisis is likely to change this trend and a shortfall in tax revenues is expected in the near future. The state will be forced to take some painful savings measures to offset this shortfall. . Finally, in terms of timing, it should be noted that the ongoing reform projects outlined above are to be implemented as quickly as possible and take priority over future reform projects.

Withholding tax

The withholding tax system functions very well in numerous areas (specifically with respect to interest at Swiss banking institutions). Concerning the interest on bonds, however, the withholding tax has proven to be a hindrance for both the Swiss capital market and as a business location. Moreover, given that this tax can be legally avoided if the right structures have been set up abroad, it is not particularly productive for the state. In this context, analyses are needed to examine whether tax adjustments could serve to return the bond business to Switzerland (e.g. by abolishing withholding tax and, if need be, the issue stamp duty on bonds).

In addition to occasional adjustments, the abolition of the withholding tax and its replacement by a paying agent tax will be examined (cf. 6.5.2). This also raises the question as to whether and to what extent such a tax would be final in nature. Preliminary studies by the sector indicate that this is possible.

Stamp duties

From the point of view of the financial sector, the issue stamp duty and turnover tax have made Switzerland considerably less attractive as a location. In certain areas, stamp duties have emerged as a competitive disadvantage for banking.

The stamp duty on insurance premiums has also created certain competitive disadvantages for the insurance sector (cf. Chapter 4). In non-life insurance, the stamp duty on insurance products may be regarded as a replacement for the absence of VAT on insurance services. When levied on companies, it is a production tax resulting in a distortion of inputs. When levied on private households, it is justified as a VAT replacement. The stamp duty on insurance premiums in non-life business may also represent a location-specific disadvantage in an international comparison.

In an international context, the turnover tax is an uncommon form of duty and has an adverse effect on the secondary market. However, it should be noted in this respect that more and more exemptions have been created in recent years by various reform measures. Abolishing this tax would make Switzerland more competitive with respect to other countries.

Stamp duties form part of the prevailing Swiss tax system, which entails a number of characteristics specific to the Swiss financial centre. These also include elements of particular importance in promoting the financial centre, such as the protection of privacy and the tax privileges granted to certain products (such as single-premium endowment insurance). Stamp duties should therefore not be viewed in isolation with respect to the attractiveness of Switzerland as a location but in association with all of the relevant tax framework. Incidentally, with respect to the location, stamp duties are only relevant in certain areas. Overall, the Federal Council views the tax framework for the financial centre as still attractive and internationally competitive; however, they should be reviewed on an ongoing basis and, if necessary, adapted in line with international developments. There would be a direct need for action with respect to the adjustment or phasing-out of stamp duties if important elements of the prevailing tax advantages for the financial centre were to lapse. Whether, when and to what extent

stamp duties are to be abolished thus depends largely on the developments with respect to market access and other international developments.

A sound and stability-led monetary and budgetary policy, a high standard of education, and an open and flexible labour market are important conditions for the development of the financial sector. This also includes a functional financial-market infrastructure, privacy protection, and an attractive tax climate for the economy as a whole.

Moreover, the state strives to create a regulatory framework that allows the financial sector sufficient leeway for development and, at the same time, addresses the need for appropriate client protection. Financial market regulation should be close to the market, efficient and effective and should be aligned with internationally recognised standards. In order to sufficiently address certain unique characteristics of the Swiss financial centre, Switzerland reserves the right to include some differentiation in its regulation. Efforts should be made to take the regulation beyond international guidelines where this is appropriate or necessary for structural reasons or to procure competitive advantages. The relevant authorities and FINMA in particular ensure that the subject of competitiveness is sufficiently addressed in current and future regulation projects.

With respect to the tax framework, Switzerland strives to ensure competitive taxation of corporations and individuals in the future. In principle, Switzerland's tax policy should not be sector-specific but should be geared towards the entire economy. Taxes that are particularly detrimental to the economy should be avoided wherever possible.

Measures:

Taxation:

- Measures related to the protection of privacy, cf. 6.5.2.
- Examine the abolition of the existing withholding tax in favour of a paying agent tax with a lower rate and a broader tax basis, possibly final in nature.
- Examine the possibilities of financing a gradual phasing-out of stamp duties over an extended time period.
- Open the consultation phase on CTR III in the first half of 2010.

Supervision:

- For the sake of enhanced client protection, adaptation by FINMA of the due diligence, disclosure and information requirements when distributing financial products.
- Step up the fight against unauthorised providers.
- Develop new key figures and improved assessment mechanisms and make targeted use of audit companies and investigators to enhance the risk-oriented approach to supervision. FINMA will also seek to extend risk-oriented supervision in the area of collective investments.
- Tighten the sanctions available and simplify the procedures involved so as to ensure effective enforcement with respect to stock market offences.

Cooperation:

- Intensify Switzerland's involvement in the main international standards bodies so as to attain international harmonisation of standards in key areas. FINMA's focus here is on recognition of equivalence of the Swiss supervisory system, or the SST, with respect to Solvency II.
- Intensify and improve coordination between the individual federal authorities and with the private sector.

6.3 Securing and enhancing market access²⁷

6.3.1 The problem of missing market access

Open markets are crucial for Switzerland with its internationally competitive financial marketplace. Given the small domestic market, Swiss financial intermediaries have to rely on good market-entry conditions abroad, with particular importance on cross-border services from Switzerland's point of view.

Market access for financial intermediaries to provide cross-border services is regulated differently around the world. Even before the latest financial and economic crisis, the entry conditions for providing services beyond one's own border ranged from a basically open market access to a complete ban, with entry conditions varying for the different business areas. Since the financial crisis, the relevant authorities in many countries have taken new measures to restrict, whether directly or indirectly, the cross-border traffic of capital and services. Given that the numerous state interventions in certain countries – some of which were quite drastic – have severely curtailed the room for manoeuvre in terms of fiscal policy, the possibility of further restrictions on market access cannot be ruled out.

The situation for Swiss financial services providers has deteriorated in many areas of business. For instance, Swiss banks are finding it increasingly difficult or even impossible to offer wealth management services abroad from Switzerland. The future earnings potential of cross-border wealth management depends largely on how market access for cross-border business will be regulated in the future in the various countries.

In addition to Swiss banks, Swiss insurance companies, asset managers and funds providers are increasingly encountering market-entry problems in cross-border business. The latest example from the funds sector is the draft proposed by the EU Commission in 2009 for an EU directive on alternative investment fund managers (AIFM). If the rules this directive contains are actually adopted, it threatens to discriminate against non-member countries such as Switzerland. Specifically, this directive states that asset management cannot be delegated to managers outside of the EU, as their supervisory regulations are not recognised as being equivalent by the relevant EU bodies. The directive currently proposed envisages the possibility of recognising non-members' regulations only after a period of three years after the directive comes into effect. This would bring a stop, at least temporarily, to all EU-registered funds (e.g. Luxembourg) that are administered in Switzerland.

Consequently, efforts towards securing and enhancing market access for Swiss financial intermediaries must be stepped up (cf. 6.3.3).

6.3.2 Close interrelationship between the Swiss and EU financial markets

In recent years, with the EU domestic market in financial services gathering momentum, the Swiss financial centre and Swiss financial intermediaries have had to face fresh challenges in terms of free market access. As Switzerland is not a member of the EEA, financial intermediaries based in Switzerland cannot participate in the Single European Market. If Swiss financial intermediaries do not have a subsidiary or a branch in the EU, they cannot participate in the free movement of services²⁸

²⁷ This section has been developed in association with SECO.

²⁸ The free movement of services as per Art. 49 (1) EC Treaty means that there are no restrictions on the movement of services within the European Community for member-state service providers based in another state or community than that of the service recipient. Along with the free movement of goods, persons and

within the EEA or offer cross-border services from Switzerland in the EU. The barriers to market access do not result directly from EU regulation but are based on national market-entry regulation in the individual EEA member states²⁹. The entry and recognition requirements differ from one EU member to another and are frequently linked to the adherence to EU rules. In this respect, the EU is also increasingly seeking to set entry requirements for cross-border provision and is increasingly playing a greater role in deciding on the recognition of non-members' regulations.

The existing barriers to market access place Switzerland at an economic disadvantage. With no legal certainty on EU market access, the cross-border activities of Swiss banks are in a (legally) grey area, i.e. Swiss financial intermediaries can only expand their EU business by way of subsidiaries in the EU, which means that Switzerland loses out in terms of jobs, value creation and tax receipts. This also makes it difficult to obtain economies of scale and thus a more cost-effective handling of financial services. Moreover, financial intermediaries incur substantial extra costs when they have to use subsidiaries. Finally, there are also restrictions with respect to the selling of products. Even the foreign branches of Swiss institutions are affected by this and are restricted in sales and distribution of financial products developed in Switzerland.

6.3.3 Possible measures

Switzerland is looking into various alternative or combined measures to safeguard market access in the long term and remove existing barriers. As part of its foreign economic policy, Switzerland has already been making efforts at a bilateral (free-trade agreements, in particular) and multilateral level (WTO, OECD) to deregulate market access (6.3.3.1). In relation to the EU, given the ongoing deepening of the Single European Market and the difficulties this creates for providers from non-member states, alternative measures will have to be verified at a regulatory level to ensure the broadest possible market access conditions (6.3.3.2).

6.3.3.1 Multilateral and bilateral deregulation

Deregulation agreements offer Switzerland a means of overcoming specific barriers to market access and safeguard existing market access in accordance with international law. In keeping with the Federal Council's foreign economic strategy, talks will continue on bilateral matters with increased focus and negotiations on the issue of market access for financial intermediaries. The emphasis here is on WTO talks under the General Agreement on Trade in Services (GATS) and the OECD as well as the signing of free-trade agreements with selected partner countries³⁰.

The GATS and the free-trade agreements with a services chapter contain rules on the movement of services and capital³¹, where this is associated with service provision. These rules aim to safeguard market access for service providers and services under international law and thereby improve the legal certainty for the acceptance and exercise of the business activity abroad. The subject matter of

capital, this is one of the four basic freedoms of the EC Treaty. Within the scope of the Lisbon Agenda being pursued by the EU, Single European Market is being increasingly integrated and these basic freedoms implemented, with particular importance placed on financial services.

²⁹ This is because the EU has not regulated the cross-border provision of financial services by companies not based in the EEA.

³⁰ Switzerland's current and future free-trade agreements (bilateral and under EFTA) target countries with an above-average growth potential and, with respect to the size of their market, propose particularly interesting sales prospects (particularly in Asia and the BRIC countries).

³¹ Double taxation treaties and investment protection agreements also deal with issues of non-discrimination and market access for financial services, either directly or indirectly. The GATS, free-trade agreements and investment protection agreements include an arbitration clause with the corresponding procedures for law enforcement.

these agreements is the market access conditions for cross-border provision of services, consumption abroad, commercial presence and the presence of a natural person crossing the border in the provision of services.

Within the framework of these agreements, Switzerland has already started working towards improving market access conditions in the financial sector. As a minimum objective, Switzerland strives to have its negotiating partners agree under international law to at least the market access provided for in national laws so as to prevent new protectionist trends. In addition, under these agreements with the most important sales markets, Switzerland seeks market access improvements mainly in the area of cross-border assets and securities transactions. Such activities should be continued and intensified. Nonetheless, most negotiating partners to date, particularly within the framework of the WTO, have been prepared to only a limited extent to offer or concede comprehensive market-entry conditions. Improving the market-entry conditions for services, including financial services, requires a reconciliation of interests to a certain degree across a range of service branches and forms of provision. In such talks in the services sector, Switzerland is thus often faced with counter-demands, particularly with respect to the free movement of natural persons (Mode 4), where Switzerland has very little room for negotiation. It would therefore be useful to examine the extent to which there may be additional flexibility in this area. In particular, an expansion of the market-entry obligations for Contractual Services Suppliers (CSS) to qualified experts and an expansion of the obligations to financial advisors could be analysed. The conclusion of negotiations, such as those in the WTO or on extensive free-trade agreements, which include other sectors along with the service sector (e.g. goods traffic, intellectual property, etc.), often requires a reconciliation of interests across the different sectors.

Depending on the negotiating partner, possibilities should also be examined – within the scope of free-trade agreements or in parallel with these – as to whether (occasional) agreements on the recognition of equivalence of supervisory rules could improve the market-entry conditions for Swiss financial intermediaries. If the results of this analysis are positive, the negotiation mandates in this respect should be provided.

In addition to the negotiation of new market-entry requirements under international law, attention should be paid to the implementation of existing ones. On account of its universal nature, the GATS, in particular, should be increasingly used as a means of countering the threat of restrictions in the area of financial services. There should also be increased focus on consistency with trade-policy market-entry instruments within the framework of international bodies specific to financial markets.

Finally, there are plans to make more intensive and more specific use of the OECD to counter discrimination³².

6.3.3.2 Switzerland / EU relationship³³

Deregulation agreements as described under 6.3.3.1 can tackle the issues of barriers to market access in the form of volume-related restrictions and discriminatory rules for foreign suppliers. Such agreements, however, have no effect on the content and precedence of national supervisory law (and the resulting barriers to market access) and they typically do not have measures such as recognition or harmonisation of national regulation as their subject matter.

³² Cf. the OECD codes of liberalisation, in particular the OECD Code of Liberalisation of Capital Movements.

³³ In the postulate of 10 June 2009 (09.3560, "European Policy. Evaluation, Priorities, Immediate Measures and Next Integration Steps"), National Councillor Markwalder asks the Federal Council to evaluate the individual instruments of European policy and to draw up a list of priorities for future European policy. The postulate was accepted by the Federal Council on 2 September 2009. It was passed on 24 November 2009 by the plenary of the National Council.

A large part of the regulatory framework for financial services has already been regulated at EU level. In this context, a purely bilateral solution with individual EU member states is not a sustainable option for Switzerland. Instead, negotiations between Switzerland and the EU concentrate more on the mutual recognition of equivalence with the EU's Community-wide supervisory system. Voluntary or unilateral alignment with EU legislation could provide support in this respect.

Mutual recognition of equivalence of supervision and regulation

In most countries, financial products are subject to regulation with varying degrees of application; this may also entail restrictions on authorisation. For Swiss financial intermediaries to have access to other markets, particularly the European market, it is especially important that Swiss regulation and supervision be recognised abroad. It should therefore be examined as to whether unilateral or mutual recognition of entry can be simplified. This presumes the recognition of equivalence of foreign supervisory systems, which also offers the advantage of avoiding duplication in the supervisory process. In addition, it contributes to improving international system stability. It is therefore in Switzerland's interest to ensure that the Swiss regulatory framework meets other relevant countries' requirements for appropriate regulation, particularly those of the EU.

In stepping up the dialogue with various supranational (e.g. EU) and national bodies, FINMA is working towards recognition of the equivalence of Swiss supervision. This process has already been formally accepted in the insurance sector with respect to the reinsurance directive and will be prepared for the Solvency II Directive at EU level, passed by the European Parliament in spring. Together with the EU Commission, the key milestones have been defined with the objective of obtaining recognition of equivalence of Swiss insurance supervisory law by the EU Commission up to the complete implementation of the guidelines by member states in 2012. An important stage in this process will be the presentation of Swiss insurance supervision to the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) in January 2010.

Adaptation of national law to EU law ("voluntary alignment")

In essence, there is a high degree of overlap between Swiss and EU regulation. This is the case in, for example, the banking sector, where both EU regulation and Swiss regulation closely follow the Basel Committee's guidelines. To remove existing barriers to market access for certain sectors, studies need to be carried out to examine whether this can be achieved in specific cases through voluntary or unilateral alignment of the Swiss rules with those of the EU, where this has been shown to be necessary. If it is to exclude any existing potential for discrimination, such voluntary alignment with EU law in the financial sector calls for Swiss law to be aligned as fully as possible with the corresponding EU rules. Numerous MiFID provisions have been or are being voluntarily adopted by the banks. However, such voluntary alignment for certain sectors only helps to improve market access if it is recognised as such by the EU (autonomously or within the scope of an agreement (cf. item 1)).

(Financial) services agreements with the EU

Another option for improving market access is to enter into a (financial) services agreement with the EU. In March 2003 Switzerland and the EU mutually agreed to suspend the talks on a general services agreement, started within the scope of the Bilateral Agreements II. The arguments for and against such a general services agreement should be examined once again. A study should also be carried out to look at whether a services agreement on financial services alone could be sought with the EU.

In wealth management, in particular, barriers to market access exist not only with respect to EU law but also in the national legislation of certain member states. It is therefore necessary to proceed both bilaterally and at EU level.

Efforts must be stepped up to secure and enhance a sustainable market access for Swiss financial intermediaries.

Measures:

- Proactive involvement of Switzerland within the framework of bilateral and multilateral foreign economic policy (e.g. WTO, free-trade agreements and OECD) against discrimination by market participants.
- Intensify the dialogue by FINMA in international bodies and bilaterally with the major supervisory authorities and individual EU bodies, such as the EU Commission or CEIOPS, to obtain international recognition of equivalence of Switzerland's supervision and regulation.
- Conclude bilateral agreements under supervisory law with key partner countries, so as to enhance market access.
- Examine the arguments for and against a (financial) services agreement with the EU.

6.4 Strengthening the financial sector's resistance to crisis and dealing with systemically important financial institutions

As already noted in 5.3, only a stable and well-functioning financial sector can create prosperity sustainably and thereby make a meaningful contribution to value creation and employment. Financial sector stability is ensured by various measures, such as a sustainable budgetary and tax policy, a robust monetary policy as well as effective and efficient supervision and regulation (cf. 6.2).

Systemically important financial institutions pose a risk to stability. Safe in the knowledge that the state will come to their aid in times of need, they may be tempted to take excessive risks. There is a need to examine measures to mitigate the risk of a possible insolvency and also, should that nonetheless happen, reduce the consequences. These measures should be studied not only with respect to their stabilising effect but also their impact on the competitiveness of financial institutions.

The Swiss financial sector comprises a large number of institutions. There is, however, a high market concentration in banking. The market share of UBS and Credit Suisse comes to over 30% of domestic deposits and over 30% of domestic loans. In addition, these two big banks account for almost two-thirds of all inter-bank liabilities. The total assets of both banks amount to around six times the country's GDP. Switzerland is quite unique in this respect as hardly any other country has such a large delta between its GDP and the total assets of its biggest banks. Switzerland's big banks are also characterised by a high interconnection with other financial institutions, and even with large parts of the entire economy.

If a systemically important financial institution were to fail, consumers and firms would be unable to effect their current expenses and investments, with their accounts blocked and credit lines halted. Whereas, for consumers, this should be largely offset by depositor protection, corporate clients would find their liquidity supply at risk of running out, at least temporarily. Meanwhile, the other banks, via the inter-bank market, would also suffer substantial losses through their claims on the bankrupt institution. The financial crisis of the past two years has shown that states feel obliged to intervene when such systemically important financial institutions founder. This can result in huge costs being borne by the taxpayer.

Safeguarding international financial stability is thus of vital interest to Switzerland. Possible solutions in this respect are being studied intensively both internationally (cf. 2.4.2) and in Switzerland.

6.4.1 Reinforcing equity capital, risk distribution and liquidity

The SFBC, FINMA's predecessor, ordered a tightening of capital adequacy requirements for the two big banks already in the autumn of 2008 (cf. 2.3.2). The risk-weighted capital requirements they have to meet in economically good times are now 100% higher; meanwhile, the SFBC introduced for the big banks a leverage ratio of at least 3% at group level and 4% with respect to the individual institution or parent company. In good times, the leverage ratio expected by supervisory bodies is 5% both at a consolidated level and with respect to individual institutions. The BCBS is currently reworking the Basel II framework and intends to raise the capital adequacy requirements for systemically important institutions disproportionately. As part of the implementation of Basel II, a need for revision in individual areas also emerged with respect to the rules on risk distribution.

Apart from reinforcing equity capital, there is also a need to augment liquidity, so as to increase the banks' resistance. Therefore, FINMA and the SNB are currently jointly revising the liquidity regulation of systemically important financial institutions as part of an extensive reform process. Unlike in the past, the new rules will take account of liquidity flows of both balance-sheet and off-balance-sheet transactions. The new rules should ensure that, in the event of a serious, widespread loss of confidence in the market, the systemically important financial institutions will still be in a position to cover their potential need for liquidity. The new rule will be introduced in several stages over a number of years, so as not to hinder the granting of loans. With their planned liquidity rules, FINMA and the SNB are, together with the UK and Australia, pioneers in this respect. Through their active involvement in international financial institutions, regulatory and supervisory organisations, such as the BCBS, Switzerland intends to contribute to the development and introduction of worldwide minimum standards. The priority here is on bolstering the equity capital and liquidity cushions.

After completion of the international modifications, the public authorities will make any adaptations they deem necessary for the Swiss system.

6.4.2 Dealing with systemically important financial institutions

Even enhanced capital and liquidity regulation cannot rule out the possibility of banking institutions and banking groups again facing the prospect of bankruptcy in the future. Saving a large institution is a very costly exercise. Given the exceptionally high concentration level within the Swiss banking sector, the problem of institutions being "too big to fail" is of particular significance, as the de facto state guarantee for systemically important institutions creates an incentive to take excessive risks.

Based on motion no. 08.3649 "Preventing unacceptable risks for the Swiss economy" put forward by the Swiss People's Party, the Federal Council has commissioned the FDF to put together a high-level expert committee to draft a report on the economic repercussions of the failure of a major corporation. This should highlight possibilities and means of mitigating the risks for the economy such that the state does not have to intervene in the case of bankruptcy.

The initial task of the expert committee is to define the concept "too big to fail" and analyse the benefits of large corporations in all sectors of the Swiss economy and the consequences of their collapse on the economy at large. The term "systemically important" should be reserved for functions performed by companies which are crucial for the economy. Subsequently, the objective will be to identify means of preventing large corporations taking excessive risks. On the one hand, preventative measures should be drawn up, such as early-warning systems and prudential regulations. On the other hand, the expert committee should also examine measures that allow for an internationally regulated liquidation of systemically important large corporations, e.g. with guidelines on organisational structure or a global bankruptcy procedure for banks. The study should not be limited to the arrangement and effectiveness of such a measure but should also show the impacts or economic costs of a tightened and cumulative regulation. Given the international dimension of this problem, attention should also be paid to the feasibility and effectiveness of such proposals. Specifically, the

feasibility of an autonomous implementation should be examined. The report is expected to be complete in autumn 2010.

The SNB and FINMA are also working on limiting the systemic importance and damage potential of large and complex financial institutions to an economically acceptable extent.

6.4.3 Depositor protection

In addition to the reinforcement of capital adequacy and liquidity requirements and the mitigation of risks incurred through systemically important financial institutions, depositor protection forms another important element in ensuring stability. In response to the crisis on international financial markets, the Swiss Parliament adopted on 20 December 2008 a series of measures to improve bank depositor protection. This change in legislation was declared urgent and is only applicable until the end of 2010. The main measures were an increase in the minimum savings protected from CHF 30,000 to CHF 100,000, an increase in the upper limit for the depositor protection system from CHF 4 bn to CHF 6 bn, the separate privileging of pillar 2 and pillar 3A assets, and the collateralisation of privileged deposits with 125% assets in Switzerland. The temporary arrangements in place until 2010 will be enacted in a permanent law. On 11 September 2009, the Federal Council opened the consultation process for a draft bank depositor protection law. This provides for a two-tiered protection system. The first level would be formed through a fund, partially set up immediately, to be financed by the banks with contributions and through the pledging of securities. Should this fund ever be depleted, the second level would come into play: a federal guarantee or (as a variant) a federal advance settled by the banks by means of annual premiums. Additional depositor protection measures include a shortening of the deadline for paying out depositor protection to 10 days and the possibility of using the fund's resources to continue providing banking services, at least in part. In addition to these protection mechanisms, the bill also includes suggestions for simplifying the bankruptcy procedure.

6.4.4 Need for regulation in the OTC derivatives market

The financial market infrastructure in Switzerland has held up well overall during the financial crisis and played a role in preventing further exacerbation of the huge uncertainties in the financial market. However, the financial market infrastructure is not a *fait accompli*. Further innovations on the financial markets will continue to emerge and, with these, the need to develop the infrastructure. Experience in recent years has shown that the existing infrastructure certainly has room for further optimisation, at least in certain areas. It has also become clear that certain financial markets can grow very rapidly without necessarily having the appropriate infrastructure. This was the case with the currency market several years ago; today, it is the OTC derivatives market that needs specific action. This largely unregulated market has expanded enormously in the past 15 years without the building of an appropriate infrastructure for the trading and settlement of transactions. The collapse of Lehman Brothers and the incident of AIG have highlighted the negative impact of the practice of bilateral settlement of the trading and clearing of credit derivatives, particularly Credit Default Swaps (CDS), on the global financial market. International calls for tighter regulation and transparency in this area, including some of the proposals for the G20 summit, reflect the need for increased risk control, minimising of counterparty risk and stable market structures. Projects are underway to settle trading in the future via a central counterparty using multilateral clearing, and have already been implemented in some cases³⁴. This development fosters market transparency for all participants and makes the financial system less complex, with each market participant now having just one relationship with the

³⁴ For example, the American IntercontinentalExchange (ICE) became the first platform on 9 March 2009 to commence clearing of CDS indexes, followed by actual CDSs. Europe followed suit with Eurex Clearing and ICE Clear.

central counterparty rather than several bilateral relationships with all its trading partners. In Europe, two central counterparties, ICE Clear and Eurex Clearing, have already been authorised in accordance with the supervisory legislation. In Switzerland a set up of a central counterparty is currently not planned. Nonetheless, the framework should be examined to determine the extent to which current developments can be supported through regulation, e.g. using certain conditions to steer non-standardised contracts, and contracts that cannot be centrally traded towards standardisation.

Only a stable financial sector can generate sustainable prosperity. Large financial institutions provide important financial services to the entire economy and an important contribution to the international significance of the financial sector. Measures to reduce the sensibility of systemically important firms concerning crisis need to be examined. Possible ways of dealing with large financial institutions in the event of a crisis should also be drawn up.

Measures:

- Raise the capital adequacy requirements for big banks in several stages by 2013 (already adopted). Examine further adjustments in light of international developments.
- Introduce a leverage ratio for big banks in several stages by 2013 (already adopted). Examine further adjustments in light of international developments.
- Raise the liquidity requirements (work already at an advanced stage).
- Examine measures for dealing with systemically important institutions in crisis situations (within the framework of the expert committee).
- Formulate preventative measures for dealing with systemically important financial institutions (prudential regulation) (detailed study underway by FINMA and the SNB).
- Improve the depositor protection system (bill in the consultation phase).
- Examine how current international developments in the clearing and settlement of OTC products can be supported in Switzerland by regulatory means, e.g. by creating incentives supporting transaction settlement via a central counterparty.

6.5 Preserving the integrity of the financial centre

Integrity is an important factor in the choice of location, as only a financial centre of integrity can preserve confidence in financial market participants, enjoy a good reputation and high acceptance internationally and thus make a large contribution to value creation and employment. Leading financial markets, however, are always subject to the risk of criminal abuse and therefore need a high standard of regulation and supervision. The prevention of abuse comprises several different areas, such as money laundering and the financing of terrorism. In the wake of the financial market crisis, particular attention is now also being paid internationally to the prevention of tax offences.

6.5.1 Reinforcing international cooperation

In a global system, combating market abuse efficiently calls for not just national efforts but also intensive cooperation at an international level. Switzerland participates actively in international efforts to prevent, for example, money laundering, corruption (which includes the problem of politically exposed persons' assets), the financing of terrorism and to deal with politically exposed persons' assets. Alongside Switzerland's previously mentioned involvement in the drafting and passing of international standards (cf. 6.2), the country also participates in the various peer review processes and works towards creating a global level playing field. At an international level, several bodies deal with the prevention of abuse and the reinforcement of prudential supervision in the financial sector. The priority in recent months has been on the cooperation with the FSB, the GF and the FATF.

All FSB members have undertaken to adhere to certain standards with respect to cooperation and the exchange of information, particularly BCBS, IAIS and IOSCO standards, and to undergo a review of

adherence. To this end, the FSB has compiled a matrix of compliance with these standards, drawing from the Financial Sector Assessment Program (FSAP) and the Reports on the Observance of Standards and Codes (ROSC). Discussions are being held to expand and reinforce the peer reviews established by the FSB. A subordinate working group has also been set up to identify the criteria for identifying non-compliant jurisdictions and develop a toolbox of measures to promote adherence to the standards. Switzerland participates actively in these discussions and is calling for a peer review process based on an updated matrix that is as broad as possible. To date, Switzerland meets a majority of the standards and is planning to take the necessary measures to meet those that remain outstanding.

The GF's mandate is much narrower than that of the FSB. Its mandate was redefined at the start of September 2009 and includes the introduction of an in-depth monitoring and peer review process aimed at ensuring global application of the standards of transparency and the exchange of information for tax purposes and also raise the effectiveness of the measures taken to implement these. It also comprises the identification and review of non-member jurisdictions that have not committed to adopting the standard or have not implemented it, to ensure they do not benefit from it (level playing field). The GF has decided to introduce a country review procedure in two phases. The first phase basically consists in reviewing the national legislation on the exchange of tax information. The second phase is the actual peer review procedure (drawing from that of the FATF). Switzerland has been involved in talks to adopt this new mandate and this peer review process and has succeeded in imposing the principle of a universal process. The Federal Council's decision on 13 March 2009 to adopt the OECD standard on mutual administrative assistance in tax matters and the revision of some of its DTAs should enable Swiss legislation to adhere to the international standard (cf. 2.4.3).

Meanwhile, the FATF monitors implementation in domestic law of the 40 + 9 Recommendations revised in 2003, which form the international standard in combating money laundering and the financing of terrorism. Practically all of the countries undergo a mutual evaluation at regular intervals. Switzerland has participated in the mutual evaluation of other countries, including the US. The FATF keeps a close watch on national developments in the implementation of its standards with periodic monitoring of the progress made in all countries. Overall, the quality of the Swiss system for combating money laundering and the financing of terrorism in implementation of the FATF recommendations is high in international comparison, as confirmed by the FATF in the Swiss mutual evaluation report adopted in October 2005. Since then, the shortcomings identified during this evaluation have been largely corrected, as confirmed by the FATF in October 2009 with its decision to upgrade Switzerland to a simplified biennial monitoring procedure. This recognition was accompanied by some explicit criticism. The FATF found that certain shortcomings still existed, specifically with respect to the effectiveness of the system for reporting suspicious transactions, the transparency concerning legal entities (bearer shares), and the measures for implementing international standards on the freezing of terrorist assets and property. In recent months, the FATF has started preparing the fourth round of mutual evaluations. In this context, it will examine a certain number of the 40 + 9 Recommendations to assess their pertinence and effectiveness and, if necessary, modify them. The key topics are the inclusion of tax offences in the list of predicate offences to money laundering, the strengthening of international cooperation, and the clarification of the existing standard on determining the beneficial owner, specifically in the case of legal entities and structures, such as trusts. At the negotiations related to this work, Switzerland will commit itself – as it generally does – to implementing the principles of transparency, equal treatment and global application of the standards. It will also seek to obtain the greatest possible stability so as to ensure predictability for all players concerned. In its concrete handling of the above topics, and based on a study of current practice, Switzerland will work toward a serious evaluation of possible needs not covered by existing standards to prevent the adoption of abstract new standards that are not necessary. This will also mean promoting the current good practice on the implementation of current FATF standards. If tax offences are classified in the future as predicate offences to money laundering, this would have serious consequences on international financial markets.

Furthermore, FINMA is seeking the signing of the IOSCO Multilateral Memorandum of Understanding so as to obtain recognition in the cross-border exchange of information among stock exchange

regulators as a full partner. This may, however, call for a further revision of the mutual administrative assistance under stock-exchange law with respect to client behaviour.

Ensuring the integrity of the financial centre also means consistently fighting the various forms of market abuse. Based on an expert report, the Federal Council has already decided to commission a comprehensive revision of the insider offence so as to create equivalence with EU regulation. There is to be no change to the offence of stock price manipulation. Nonetheless, FINMA should presume other forms of market manipulation under supervisory law, against supervised as well as non-supervised market participants. This should ensure that the standard of the corresponding EU directive is also met for market manipulation. The Federal Council has also decided to group the authority for application of criminal law alongside the federal-law legal procedure. These measures should help to build trust among market participants in the functioning of the Swiss stock market. Furthermore, through equivalence with the prevailing rules in the EU, in particular, it should be made clear that Switzerland applies the same high standards as other leading centres.

In the future, Switzerland will continue to play an active role in the international efforts for regulation and supervision of financial markets and in the fight against financial crime. Its goal here is an appropriate monitoring system and a worldwide level playing field.

6.5.2 International cooperation in tax matters

Following on from the economic and financial crisis, international pressure has intensified on tax evaders and on countries that are perceived by other states as not doing enough to combat tax offences. Switzerland found itself in the crossfire of criticism in the winter of 2008/09. In this context, the Federal Council ruled on 13 March 2009 to adopt the standard set out in Art. 26 of the OECD Model Tax Convention in international mutual administrative assistance in tax matters and to withdraw its reservation on this provision. Since then, Switzerland has revised a number of its double taxation treaties and now meets the OECD's international standards (cf. 2.4.3). Cooperation with the EU in tax matters has now already been stepped up. Switzerland is willing, however, while preserving bank client privacy and in particular excluding the automatic exchange of information, to engage in international talks to minimise existing legal risks in cross-border wealth management and, at the same time, to sustainably improve its access to other financial markets.

Consolidation of the legal framework for mutual administrative and legal assistance

Switzerland has continually expanded its international cooperation in tax matters during the past few years. Recent months, however, have seen huge developments in the legal framework for mutual administrative and legal assistance in tax matters. To a certain extent, this has created some uncertainty among financial market players and financial clients. It is important now to restore legal certainty and predictability in this area.

Mutual administrative and legal assistance in tax matters is governed with respect to substantive law within various treaties: for mutual administrative and legal assistance in the area of VAT, in the fraud prevention agreement and in the Schengen Convention with the EU; for mutual administrative assistance for interest payments, in the taxation of savings income agreement with the EU; for mutual administrative assistance in the areas of direct taxes, in the DTAs. Mutual legal assistance concerning tax offences is governed in the corresponding international treaties and in the Mutual Legal Assistance Act. Switzerland is about to adapt this domestic and international legal framework to Art. 26 OECD within the parameters set by the Federal Council³⁵.

³⁵ The parameters set by the Federal Council are:

- Exchange of information only upon request and for individual named cases;

In addition to the consolidation of principles under material law, there is also a need to consolidate the principles under formal law of mutual administrative and legal assistance in tax matters. Considerable progress has already been made in this respect, with plans to enact a basic ordinance on the regulation of mutual administrative assistance procedures when the first DTT with OECD-compliant mutual administrative assistance clauses comes into effect. Subsequently, the intention is to replace the basic ordinance by legal regulations at a legislative level so as to allow, among other things, a broader democratic legitimisation and an acceleration of the process or the implementation, which is necessary but only permissible by way of a law. An in-depth study is also needed on issues concerning the procedural implementation of mutual administrative assistance within the scope of the fraud prevention agreement and the application of coercive measures and the implementing organisation for mutual administrative and legal assistance.

Cooperation with the EU in tax matters

Switzerland cooperates extensively with the EU in tax-related issues. For one thing, Switzerland offers the EU and its member states mutual legal and administrative assistance in tax fraud and evasion offences in the area of indirect taxation (such as value-added tax, customs and excise duties). In fraud prevention, Switzerland offers EU authorities the same instruments that are used in Swiss procedures. The use of coercive measures in cooperation with the EU is thus no longer restricted to tax fraud but now also includes cases of tax evasion. Such coercive measures include, for instance, house searches, witness statements or inspection of bank accounts. However, they are only taken in cases of double criminality – where they are equally punishable in both jurisdictions – and the amount of the offence exceeds EUR 25,000. In addition, there must be a court-order search warrant. The anti-fraud agreement is being applied prematurely by Switzerland since 8 April 2009 with respect to certain countries, although not all EU member states have yet ratified the related agreements.

Secondly, Switzerland signed a taxation of savings income agreement with the EU in 2004. By introducing a system of tax retention of initially 15%, increasing in stages to 20% (since 1 July 2008) and 35% (as of 1 July 2011), this ensures that the interest earnings of persons resident in the EU are appropriately taxed. This tax retention applies for all interest earnings that are not subject to withholding tax and are paid by a paying agent based in Switzerland, e.g. a bank, to a natural person resident for tax purposes in the EU. Of the revenue raised through this tax retention, 75% is payable to the EU member states, with 25% remaining in Switzerland to cover expenses (revenue sharing). Foreign recipients of interest can opt to accept the tax retention or declare their earnings to their tax authorities. With this system, Switzerland offers the EU a solution equivalent to an automatic exchange of information, while preserving its own legislation and banking secrecy. The EU is currently working on extending its Savings Tax Directive to close some remaining loopholes. In October 2009, Switzerland and the EU held consultative talks on the technical functioning and on international developments, including the ongoing intra-EU revision of the Savings Tax Directive.

Minimising legal risks in cross-border wealth management

The Federal Council and the private sector agree that cross-border wealth management will remain the core business of the Swiss financial centre for the foreseeable future. The State must set the appropriate regulatory framework: the further development of the financial centre is a matter for the financial intermediaries within the remit of their business strategy. The increasing displacement of the wealth management business to on-site locations abroad is not a sustainable alternative if Switzerland wants to maintain a strong financial sector with its own value creation at home. Moreover, onshore business entails considerably more legal and business risks.

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- So-called “fishing expeditions” are inadmissible;
 - No retroactive effect;
 - Subsidiarity and reciprocity of mutual administrative assistance;
 - Legal protection of the person in question.

Although Switzerland, having adopted the OECD standard, now meets the requirements of international cooperation in tax matters and cooperates to an even greater extent with the EU, the business of cross-border wealth management continues to harbour some substantial legal risks. These risks have further grown against the backdrop of the financial and economic crisis and the associated pressure on public budgets. Many states are setting tighter supervisory and regulatory conditions in an effort to improve their taxpayers' tax compliance. Such measures are also being used by certain states, however, as a means of improving their competitive standing as a location. For a start, there are risks associated with monies that are already in Switzerland and have not been properly taxed. In providing cross-border services for their clients, financial intermediaries are facing increased risks of violating foreign supervisory, tax or criminal laws. Switzerland must therefore adapt to such developments.

The Federal Council has always maintained that it is not in Switzerland's interest to attract untaxed monies from abroad. However, it is primarily the taxpayer's own responsibility to fulfil his tax obligations with the relevant tax authorities abroad. It is not the state's job to bear the legal and business risks of banks and their clients in relation to cross-border wealth management. What's more, these risks cannot be eliminated by means of state measures. Nonetheless, the Federal Council is willing to support the banking sector in its efforts to minimise the risks it faces. In particular, the Federal Council is prepared – within the framework of bilateral negotiations, in addition to the implementation of the OECD standard in DTAs – to further expand cross-border cooperation, provided that the following objectives can be attained:

- Regularisation of undeclared accounts with respect to the tax authorities of the state in question, with no repatriation obligation.
- Improved market access for the provision of financial services from Switzerland.
- Protection of bank client privacy (no automatic exchange of information).

Within the scope of its extended bilateral cooperation, the Federal Council is prepared to examine various measures in terms of supervisory and tax law to ensure a more thorough taxation of capital assets and their earnings. The priority here is on two measures in particular, which may be introduced individually or together:

- Introduction of a final withholding tax³⁶ on cross-border investment income within the framework of bilateral agreements. Such a system for taxing the investment income of foreign bank clients would have to (like the Swiss-EU taxation of savings income agreement) be based on the principle of the paying agent. The protection of the privacy of foreign clients of Swiss banks would thus be upheld. A final withholding tax would also allow for a substantial reduction in the legal risks of cross-border wealth management. Moreover, the final nature of the tax would help to legalise over time assets, which are undeclared so far. At the same time, and as another remedy to this problem, Switzerland could offer to tax assets that had not previously been declared for tax purposes at a rate to be agreed on with the partner state. The introduction of a final withholding tax could be done within the framework of a bilateral agreement and emulate the national taxation of investment income in the partner state³⁷.

³⁶ The final nature of this tax would mean that, once it is levied and forwarded via the FTA, foreign bank clients would have fulfilled their tax obligations to the relevant tax authorities abroad.

³⁷ As a long-term alternative to a final withholding tax on the basis of bilateral agreements, the Federal Council is also looking into the introduction of a paying agent tax on the basis of national legislation to replace the current withholding tax (cf. 6.2.3.2). For solving cross-border issues, however, the focus is on introducing a final withholding tax.

- Introduction of other measures to promote taxpayer honesty among bank clients and thus reduce the associated legal risks. One possible measure in this respect would be to require bank clients to declare that they have fulfilled their tax obligations abroad. The aim of such a declaration obligation would be to make tax evasion considerably more difficult while at the same time not imposing ex ante additional obligations of due diligence on the banks. The banks however would have to undertake to break off any client relations if they learn that a false declaration has been made. Detailed clarifications would be needed with regard to the possible form of such a declaration and its consequences for banks and their clients. It should also be considered whether such a measure required international coordination.

With states that are not seeking any further cooperation with Switzerland or if the specified objectives cannot be met, Switzerland is willing to enter into double taxation agreements based on the OECD standard or revise existing agreements, provided that the DTA also takes due account of Switzerland's economic concerns.

Integrity is one of the basic prerequisites for a functioning and successful financial centre. Integrity establishes confidence in market participants and is an absolute prerequisite for the acceptance of the Swiss financial centre both at home and abroad. Integrity is guaranteed by the responsibility of the market participants as well as through regulation. Switzerland continues to be actively involved in international efforts to combat financial market crime. In addition, the Federal Council is prepared, under certain conditions, particularly the maintenance of the protection of privacy, to expand existing cross-border cooperation in tax matters. It is not in Switzerland's interest to attract untaxed monies from abroad.

Measures:

- Intensify active involvement in international bodies, such as the FSB, the GF and the FATF, in order to combat financial crime, implement an appropriate monitoring system and create a global level playing field.
- Adapt the legislation with respect to stock market offences and market abuse.
- Expand the DTA network with mutual administrative assistance based on the standard provided for in Art. 26 of the OECD Model Tax Agreement.
- Issue internal legislation on implementing the changes in mutual administrative and legal assistance; in particular, the basic principles of procedural law for mutual administrative and legal assistance in tax matters (advanced stage) (issuance of a basic ordinance, to be subsequently replaced by a legal basis).
- Willingness under certain conditions to enter into bilateral agreements in addition to the implementation of the OECD standard as part of double taxation agreements in order to further extend international cooperation. In this respect:
 - Examine the introduction of a final withholding tax.
 - Examine other measures to promote taxpayer honesty among bank clients and thus reduce the associated legal risks.

7 Achieving the strategic directions

The strategy is based on the following key directions: the priority is on strengthening competitiveness; in addition, market access must be improved; efforts being made with respect to regulation must be continued in order to safeguard the stability of Swiss financial institutions; and finally, confidence in the financial centre and its integrity must be increased.

The strategic directions thus identified provide a framework for organising the proposed measures and determining their contribution to meeting the objectives. Future proposals for regulation should systematically be examined with respect to these strategic directions. Some of the measures are implemented in the legislation, some are carried out by FINMA, and some fall under the responsibility of the financial sector.

These issues are of such importance that, overall, they could make a significant difference to Switzerland's future GDP. Therefore, implementation of the most important measures will form part of the Federal Council's future growth policy.

7.1 Institutionalised cooperation

All groups concerned must be involved in the implementation. In this respect, it is important to continue the intensive cooperation with the financial sector. Such cooperation is also necessary for other reasons: Switzerland should strive for an international image that is as coherent as possible. An effective means of early detection is only possible if all parties inform each other mutually about relevant developments. What's more, agreements and coordination between the public authorities and private enterprise are necessary in many issues.

The interconnections within the public sector itself and between public authorities and the private sector should be consolidated or strengthened through the following measures:

Improving information exchange and cooperation between financial market authorities

The FDF, SNB and FINMA define suitable repositories for the regular exchange of information, taking account of their mission defined by law and with respect for their institutional independence. Specifically, this communication between public-sector authorities should help to create better conditions for the Swiss financial centre and for defending its interests on an international stage. The focus here is on the following content:

- Early detection of threats facing the Swiss financial centre;
- Maintaining financial stability;
- Alignment in terms of regulation;
- Alignment of positions with respect to international activities;
- Know-how exchange and enhancement.

Further intensifying cooperation with the private sector

The following measures are intended to increase the level of cooperation between public-sector authorities and the financial sector:

- Dialogue between public authorities and the financial sector (Financial Centre Forum)
The cooperation started in 2008 between the financial centre, public authorities and the government with a view to improving the conditions and increasing the competitiveness of the

Swiss financial centre should be continued. As part of this work, the impact of these conditions on other sectors should also be taken into account.

- **Early detection**

Regulatory measures taken in other major financial markets, particularly in the US and the EU, tend to affect Switzerland with increasing frequency and speed. Switzerland's early warning mechanism therefore needs to be enhanced. It should allow public authorities and professional associations to detect regulatory developments abroad at an early stage, analyse their repercussions on Switzerland, prepare the groundwork for making (strategic) decisions, and propose necessary measures. STAFI has planned to step up its monitoring³⁸. To this end, the project "Early detection of financial market regulation abroad" was launched. This consists of a closed electronic platform for exchanging information between the relevant authorities and associations via international contacts and the planned regulations of the main financial markets. It also creates a body that, if necessary, can conduct a situation analysis, reach agreements and take the necessary measures.

- **Financial crime**

The technical task group "International standards setting in financial crime" deals with the setting of standards (specifically those of the FATF, OECD and UNO) in the areas of money laundering, the financing of terrorism and, to a lesser extent, tax offences. The task force should ensure the mutual exchange of information on regulatory developments and coordinate the various statements on specific international regulatory plans of multilateral bodies.

7.2 Prioritisation the measures

The following looks at the implementation and prioritisation of the various measures with respect to the four strategic directions.

7.2.1 Improving the international competitiveness of the financial sector

To increase the transparency, integrity and thus the competitiveness of the financial system, FINMA will examine – probably in the first half of 2010 – any needs for regulation to intensify and improve the due diligence, disclosure and information requirements when distributing financial products. FINMA will step up the fight against unauthorised providers. Also by the first half of 2010, FINMA, the FDF and the SNB will adapt their strategy to intensify Switzerland's involvement in the main international standards bodies so as to attain international harmonisation of standards in key areas. FINMA's focus here is on recognition of equivalence of the Swiss supervisory system, or the SST, with respect to Solvency II. In this area, the federal authorities will intensify and improve coordination among themselves and in association with the private sector.

By the second half of 2010, FINMA will develop new key figures and improved assessment mechanisms and make targeted use of audit companies and investigators to enhance the risk-oriented approach here too. FINMA will also seek to extend risk-oriented supervision in the area of collective investment schemes. In 2010, the FDF and FINMA will work on making enforcement more effective and strive to tighten the sanctions available and simplify procedures.

The fiscal reforms designed to strengthen Switzerland as a business location should be implemented rapidly. The consultation phase on CTR III should be opened in the first half of 2010. Furthermore, the FDF (FTA) is examining the possibility of financing a gradual phasing-out of stamp duties over an

³⁸ Cf. FDF press release of 5 September 2008

extended time period. The implementation of this measure depends on developments with respect to market access and other international developments. There are also studies underway on the abolition of the existing withholding tax, to be replaced by a paying agent tax with a lower rate and a broader tax basis, possibly final in nature. The FDF (FTA) has already commenced this work.

7.2.2 Securing and enhancing market access

The Swiss public authorities will take an even more proactive stance against discrimination of market participants within the framework of bilateral and multilateral foreign economic policy (e.g. WTO, free-trade agreements and OECD).

In the coming months, FINMA will also intensify its dialogue in the international bodies and bilaterally with the supervisory authorities of large states and individual EU bodies, such as the EU Commission or CEIOPS, so as to ensure international recognition of Swiss supervision. Obtaining recognition of supervision is an important step in removing existing barriers to market access.

Talks on bilateral agreements under supervisory law will continue to be held with certain partner countries so as, among other things, to improve market access for financial intermediaries. The arguments for and against a (financial) services agreement with the EU should also be examined as soon as possible.

7.2.3 Strengthening the financial sector's resistance to crisis and dealing with systemically important financial institutions

The gradual increase in capital adequacy requirements for big banks, supposed to be in place by 2013, has already been adopted, as has the gradual introduction of a leverage ratio for big banks by 2013. Further adjustments in these areas on account of international developments cannot be ruled out, however. Much progress has been made with respect to the reform work on liquidity requirements. Based on the experience of the current crisis, the BCBS wants to increase resistance to shocks by enacting a new global minimum liquidity standard by the first half of 2010.

An expert group comprising representatives of public authorities, private enterprise and the academic community was created to formulate measures for dealing with systemically important institutions in crisis situations. This group is expected to present the FDF a report on possible approaches and priorities for action by autumn 2010. This also covers questions of organisational structure, international liquidation proceedings for banks, a global bankruptcy procedure for banks, etc. The authorities are also making efforts to formulate preventative measures in dealing with systemically important financial institutions, probably in 2010. FINMA and the SNB are also currently examining prudential regulation.

Considerable progress has already been made on improving the depositor protection system. An initial draft by the FDF will be submitted for consultation by 31 December 2009.

FINMA is expected to examine by mid-2010 how current international developments in the clearing and settlement of OTC products can be supported in Switzerland by regulatory means. One possible measure would be, for instance, to support transaction settlement via a central counterparty.

7.2.4 Preserving the integrity of the financial centre

Switzerland is already intensely involved in the international bodies dealing with the prevention of financial crime. It is seeking to implement an appropriate monitoring system and a global level playing field (e.g. FSB, GF and FATF) and will intensify its efforts in this respect.

Consistently fighting financial crime is a prerequisite of preserving the integrity of the financial centre. Based on an expert report, the Federal Council has already agreed to commission a comprehensive revision of the insider offence so as to create equivalence with EU regulation.

Work is continuing under the aegis of the FDF on the further expansion of the network of DTAs that contain adaptations to the mutual administrative assistance in accordance with Art. 26 of the OECD Model Tax Agreement. There is also much progress in the issuing of internal legislation on implementing the changes in mutual administrative and legal assistance, in particular the basic principles of procedural law for mutual administrative and legal assistance in tax matters (issuance of a basic ordinance). The basic ordinance will be submitted to the Federal Council by the FDJP in 2010.

Concerning the taxation associated with cross-border wealth management, the Federal Council is prepared to further expand its international cooperation under certain preconditions. In this connection, the introduction of a final withholding tax is being studied. In addition, measures are also being examined to promote taxpayer honesty among bank clients and thus reduce the associated legal risks.

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Annex 1 – Members of the Strategy task force

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- Manuel Ammann, Director of the Swiss Institute of Banking and Finance, University of St. Gallen
- Manuel Sager, Chairman of the expert group on optimising cooperation with respect to tax offences

Secretariat:

- David S. Gerber, Head, Financial Markets and Services, FFA
- Fred Bürki, Deputy Head, Financial Markets and Services, FFA
- Catherine Chammartin, Financial Markets and Services, FFA
- Stephan Aeschlimann, Financial Markets and Services, FFA

Annex 2 – Measures towards achieving the strategic directions

Strategic direction	Measures	Who
1. Improving the international competitiveness of the financial sector	Taxation:	
	Examine the abolition of the existing withholding tax in favour of a paying agent tax with a lower rate and a broader tax basis, possibly final in nature.	FDF (FTA)
	Examine the possibilities of financing a gradual phasing-out of stamp duties over an extended time period.	FDF (FTA)
	Open the consultation process on CTR III.	FDF (FTA)
	Supervision:	
	Improve due diligence, disclosure and information requirements when distributing financial products.	FINMA
	Step up the fight against unauthorised providers.	FINMA
	Develop new key figures and improved assessment mechanisms and make targeted use of audit companies and investigators to enhance the risk-oriented approach to supervision. Also, extend risk-oriented supervision in the area of collective investment schemes.	FINMA
	Tighten the sanctions available and simplify the procedures involved so as to ensure effective enforcement with respect to stock market offences.	FDF, FINMA
	Cooperation:	
	Intensify Switzerland's involvement in the main international standards bodies so as to attain international harmonisation of standards in key areas. The focus here is on recognition of equivalence of the Swiss supervisory system, i.e. SST, with respect to Solvency II.	FINMA, FDF, SNB
	Intensify and improve coordination between the individual federal authorities and with the private sector.	FINMA, FDF, SNB
2. Securing and enhancing market access	Proactive involvement of Switzerland within the framework of bilateral and multilateral foreign economic policy (e.g. WTO, free-trade agreements and OECD) against discrimination by market	FDEA (SECO) and interested departments

	participants.	
	Intensify the dialogue by FINMA in international bodies and bilaterally with the major supervisory authorities and individual EU bodies, such as the EU Commission or CEIOPS, to obtain international recognition of equivalence of Switzerland's supervision and regulation.	FINMA
	Conclude bilateral agreements under supervisory law with key partner countries, so as to enhance market access.	FDF, FINMA, FDEA (SECO, IB), FDFA
	Examine the arguments for and against a (financial) services agreement with the EU.	FDFA/FDEA (SECO, IB), FDF (FFA)
3. Strengthening the financial sector's resistance to crisis and dealing with systemically important financial institutions	Raise the capital adequacy requirements for big banks in several stages by 2013 (already adopted). Examine further adjustments in light of international developments.	FINMA, SNB
	Introduce a leverage ratio for big banks in several stages by 2013 (already adopted). Examine further adjustments in light of international developments.	FINMA, SNB
	Considerable progress has already been made in raising liquidity requirements. The BCBS will issue global minimum standards with respect to liquidity.	FINMA, SNB
	Examine measures for dealing with systemically important institutions in crisis situations.	Expert group
	Formulate preventative measures for dealing with systemically important financial institutions (prudential regulation) (detailed study in process).	FINMA, SNB
	Improve the depositor protection system (bill in the consultation phase).	FDF
	Examine how current international developments in the clearing and settlement of OTC products can be supported in Switzerland by regulatory means, e.g. by creating incentives supporting transaction settlement via a central counterparty.	FINMA
4. Preserving the integrity of the financial centre	Intensify active involvement in international bodies, such as the FSB, the GF and the FATF, in order to combat financial crime, implement an appropriate monitoring system and create a global level playing field.	FDF, FINMA, SNB

	Adapt the legislation with respect to stock market offences and market abuse.	FDF, FINMA
	Expand the DTA network with mutual administrative assistance based on the standard set out in Art. 26 of the OECD Model Tax Agreement.	FDF (FTA)
	Issue internal legislation on implementing the changes in mutual administrative and legal assistance; in particular, the basic principles of procedural law for mutual administrative and legal assistance in tax matters (advanced stage) (issuance of a basic ordinance, to be subsequently replaced by a legal basis).	FDF (FTA), FDJP (FOJ)
	Willingness, subject to specific conditions, to conclude bilateral agreements in addition to implementing the OECD standard within the framework of double taxation treaties, so as to further expand cross-border cooperation. In this respect: • Examine the introduction of a final withholding tax. • Examine other measures to promote taxpayer honesty among bank clients and thus reduce the associated legal risks.	FDF (FTA) FDF, SBA

Abbreviations

AIFM	EU Directive on Alternative Investment Fund Managers
AIG	American International Group
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BRIC countries	Brazil, Russia, India and China
BVG	Legislation on occupational pension funds
CCP	Central Counterparty
CDB	Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence
CDS	Credit default swap
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CISA	Collective Investment Schemes Act
ComFrame Task Force (IAIS)	Common Assessment Framework Task Force
Cst.	Federal Constitution
CTR	Corporate Tax Reform
DTA	Double taxation treaty
EC Treaty	Treaty establishing the European Community
ECB	European Central Bank
EEA	European Economic Area
EU	European Union
Eurex	European derivatives exchange
FATF	Financial Action Task Force on Money Laundering
FDF	Federal Department of Finance
FDP	Free Democratic Party of Switzerland
FFA	Federal Finance Administration
FINMA	Swiss Financial Market Supervisory Authority
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FSF	Financial Stability Forum
FSO	Federal Statistical Office
FTA	Federal Tax Administration
G20	Group of the 20 most important industrialised and developing economies
G8	Group of Eight
GDP	Gross domestic product
GF	Global Forum
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICE	Intercontinental Exchange (US)
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRSG	Federal Act on International Mutual Assistance in Criminal Matters
JOBSTAT	Job Statistics
M&A	Mergers & Acquisitions
MiFID	EU Markets in Financial Instruments Directive
MTFs	Multilateral Trading Facilities
NGOs	Non-governmental organisations

OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
QIF	Qualifying Investor Fund
ROSC	Reports on the Observance of Standards and Codes
SBA	Swiss Bankers Association
SEPA	Single Euro Payments Area
SFA	Swiss Funds Association
SFBC	Swiss Federal Banking Commission
SIA	Swiss Insurance Association
SIX Group	(until October 2008: Swiss Financial Market Services)
SMEs	Small and Medium-sized Enterprises
SNB	Swiss National Bank
SST	Swiss Solvency Test
STAFI	Financial Centre Dialogue Steering Committee
SUVA	Swiss Accident Insurance Fund
SVP	Swiss People's Party
T2S	Target2-Securities
UCITS	Undertakings for Collective Investments in Transferable Securities
UNO	United Nations Organisation
VAT	Value-added tax
WAK-N	Committee for Economic Affairs and Taxes of the National Council
WTO	World Trade Organisation