

# Financial market policy for a competitive Swiss financial centre

Federal Council report



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# Summary

With this report, the Federal Council is reaffirming the principles of its financial market policy and specifying the strategic directions of the policy. An update was necessary because of significant changes to the environment for the Swiss financial centre and Switzerland's introduction of a series of extensive regulatory and tax reforms in the last few years. It thus implemented important international standards also for the cross-border financial services business.

The Federal Council supports a sound financial market policy that is dynamic at the same time. This policy is based on stable objectives and guidelines, but it also needs to be sufficiently adaptable in order to allow for an optimal response to developments in the rapidly changing financial environment. The report should serve as a compass to make the Federal Council's policy understandable and predictable.

Five key thrusts of the financial market policy demonstrate how the Swiss financial centre's opportunities and challenges will be addressed and how the centre's competitiveness should be maintained. While the implementation of internationally recognised standards will remain a key component of the policy, national leeway should be exploited and the framework conditions for Switzerland's financial centre should be designed in a forward-looking and efficient manner. This also applies with respect to new technologies in particular.

- In order to maintain and improve market access, bilateral agreements with partner countries will be sought. Recognition of the equivalence of Swiss financial market regulation should be achieved with the EU in areas where this is meaningful from an economic perspective. At the same time, the qualities of the Swiss financial centre should be underscored abroad in collaboration with the private sector.
- The way will be paved for innovative ideas and new business models in the financial sector as digitisation rapidly advances. Disproportionate barriers to market entry for fintech firms will be removed by adjusting the legal framework. The trend towards sustainability in financial business also offers opportunities for financial institutions, e.g. by including environmental considerations and related risks in capital investments. These opportunities should be seized.
- The regulatory processes will be further optimized, whereby involvement of the sector is always envisaged. Economic impact analyses will be started at an early stage and will be refined as regulatory projects progress. Moreover, ex-post evaluations of selected financial market regulations should be commissioned from independent bodies. At the international level, the authorities support a more streamlined and effective international regulatory agenda.

- The financial system’s stability and proper functioning will be safeguarded. In accordance with its statutory mandate, the Federal Council will continue to carry out periodic reviews of its “too-big-to-fail” regime for systemically important banks. In addition, improvements to the depositor protection scheme will be examined, as will a reduction of systemic risks in the real estate market and in the area of occupational pensions.
- International conformity in the areas of taxation and money laundering will be ensured. In order to uphold a level playing field, Switzerland supports broad implementation of these global standards in international bodies, thereby underscoring its commitment to contribute fully to the integrity of the international financial system.

A stable and competitive financial sector that functions well is a mainstay of the Swiss economy. It is the task of the state to provide optimal framework conditions for the business activities of this sector. The Swiss financial centre should continue to assert itself as one of the world’s leading locations for financial business and even be able to strengthen this role.

# 1

## Introduction

### Starting point and objectives

The Federal Council last formulated its financial market policy in 2012<sup>1</sup>, the focus of which was on specific steps in the area of taxation aimed at responding to international pressure on Switzerland. At the same time, efforts got under way to strengthen the financial centre's competitiveness in the areas of asset management, insurance and pension provision, and the capital market in collaboration with the sector.

Since then, numerous developments have occurred and a large number of measures have been taken in the areas of taxation and financial markets at both the national and international levels. The aim of this report is to present the current starting points in these areas, describe the challenges that will arise in the coming years and determine the areas for action to tackle these challenges. The findings of two groups of experts on the further development of the financial market strategy<sup>2</sup> from 2013 and 2014 as well as the pioneering decisions taken by the Federal Council and Parliament will also be taken into account. Furthermore, Switzerland's overall strengths as a financial centre, such as its economic and political stability, well-functioning and attractive labour market, high-quality infrastructure, sophisticated public service, first-class education system and advantageous tax environment are essential for the financial sector in Switzerland. While they are part of the general framework conditions for the economy and are a high priority for the Federal Council, they are not part of financial market policy in the stricter sense.

The Federal Council's financial market policy is geared towards legal certainty, predictability and continuity. The policy's objectives and guidelines are correspondingly enduring. However, financial market policy must adapt to a changing environment and unexpected events and choose its priorities and resources accordingly. It must have a clear direction too. The report presents the orientation of Switzerland's financial market policy and helps Switzerland to respond appropriately, flexibly and promptly to the opportunities and challenges for its financial centre. The Federal Council's policy also sets the framework for the Confederation's collaboration with the authorities responsible for financial market supervision.

### Policy milestones and priorities

It is important for the economy as a whole that the financial sector reliably provides companies and households with high-quality services. In doing so, value added and jobs (and thus tax base too) should be maintained and created in the Swiss financial centre with attractive framework conditions. The further development of the domestic market and international business are of equal significance. On the one hand, the domestic framework conditions need to be enhanced; on the other hand, Swiss financial intermediaries rely on good conditions to access foreign markets. The Swiss financial centre must safeguard its position as one of the world's leading financial centres and consolidate that position in the future too.

<sup>1</sup> Report on Switzerland's financial market policy of 19 December 2012. This report also showed the implementation status of the measures adopted by the Federal Council in 2009 in the report «Strategic directions for Switzerland's financial market policy» (in response to postulate 09.3209 tabled by Konrad Graber).

<sup>2</sup> See the report by the first group of experts entitled «Regulatory challenges in cross-border Swiss asset management and strategic options» of 6 June 2013 and the final report, including the annexes, by the second group of experts on the further development of the financial market strategy of 1 December 2014.

The Federal Council has consistently pursued these objectives in recent years. By participating in the global regulatory agenda as a major international financial centre and implementing the essential financial market reforms agreed, Switzerland was able to strengthen its financial stability and boost its credibility. The implementation of internationally recognised standards wherever necessary and appropriate for Switzerland remains a pillar of financial market policy.

The following can be highlighted as milestones of reforms implemented in recent years: Switzerland extensively revised its legislation on financial market infrastructures, derivatives trading and anti-money laundering. In addition, it tightened its too-big-to-fail regime for systemically important banks and raised the capital and liquidity requirements for all banks. For Swiss insurers, demanding insolvency requirements were already introduced with the Swiss Solvency Test (SST) and are recognised as equivalent to EU regulation. Finally, the transition to the automatic exchange of information in tax matters, which is broadly supported by the international community, represents a fundamental change in the framework conditions for business with foreign clients in the Swiss financial centre.

By meeting its international obligations and campaigning for consistent implementation by other states, Switzerland helps to ensure a level playing field for participants. At the same time, it wants to protect its interests. In intergovernmental relations, agreements are concluded based on the mutual recognition of regulation and supervision, where possible. As part of its activities in international bodies, it is committed to ensuring that Swiss interests are taken into account in the development of international standards and that the principle of equal treatment is applied in peer reviews and is measured with the same yardstick.

The dialogue with the private sector and key partner states is conducted in a regular and systematic manner. Special priorities are set and solutions are pursued rigorously with partner states in areas where Switzerland can strengthen its position in the international competitive environment. The focus is on open markets, an innovation-friendly legal framework and the best possible national financial market regulation.

## Structure of the report

The report begins by outlining the challenges for the Swiss financial centre in the competitive international environment. The main section presents the thrust of the measures that the Federal Council intends to take to respond to these challenges. This includes clarification of the approach over the short to medium term. In the final section, explanations on implementation highlight the need for dialogue within Switzerland and for active engagement with a view to safeguarding the country's interests abroad. The principles of Swiss financial market policy and the fundamental objectives and guidelines in particular are outlined in the appendix. Important financial market policy developments since 2010 are also listed in the appendix.

## 2

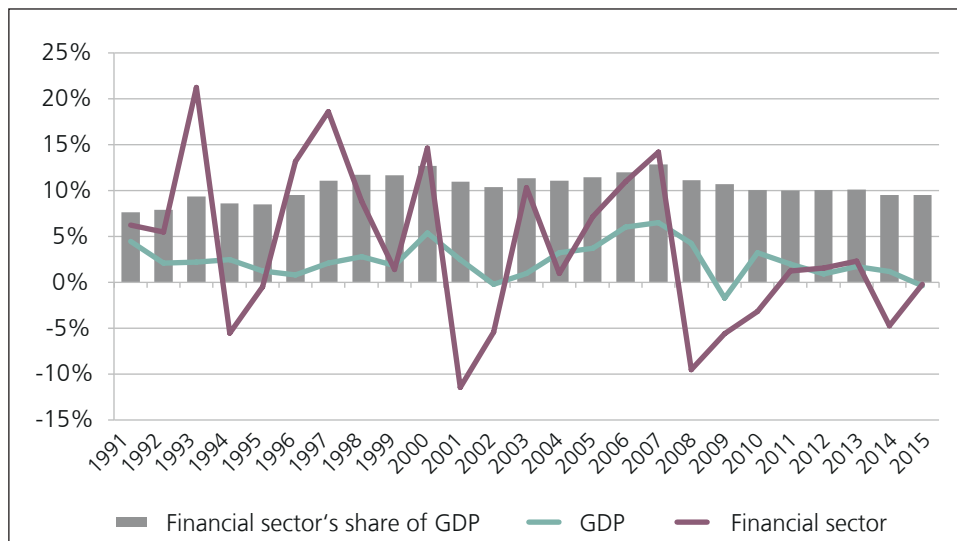
# The Swiss financial centre in the international competitive environment

### The financial sector as an important part of the national economy

The financial sector is a key pillar of the Swiss economy. It provides<sup>3</sup> jobs for over 200,000 employees, thus accounting for approximately 5.6% of overall employment at the end of 2015. At the same time, the financial centre generated value added of approximately CHF 60 billion in 2015. This equates to a 9.3% share of gross domestic product (GDP).

The development of the financial sector has at times fluctuated greatly over the past 25 years. Figure 1 gives a comparison with total GDP growth over the past 25 years. The sharp swings of the financial sector are clearly recognisable relative to the trend of GDP. This is related to the fact that a significant share of the financial sector's value added is generated by asset management and investment banking, where revenue fluctuates greatly. At the end of 2015, the securities held in client custody accounts with Swiss banks amounted to CHF 5.5 trillion, approximately three quarters of which were held by institutional clients such as pension funds.<sup>4</sup> In 2015, these securities holdings were only slightly higher than they were in 2007, having dropped sharply in the interim (see Figure 2). The financial crisis represents a type of turning point also with regard to the growth rates of the financial sector's value added, as growth of over 5% has not been recorded since then. The pressure on margins is currently high in practically all financial sector business areas, combined with the tendency towards risk aversion in investment and lending.

Figure 1: Annual growth rates of the financial sector and overall economy, and proportion of GDP from the financial sector (1991-2015)



Source: FSO

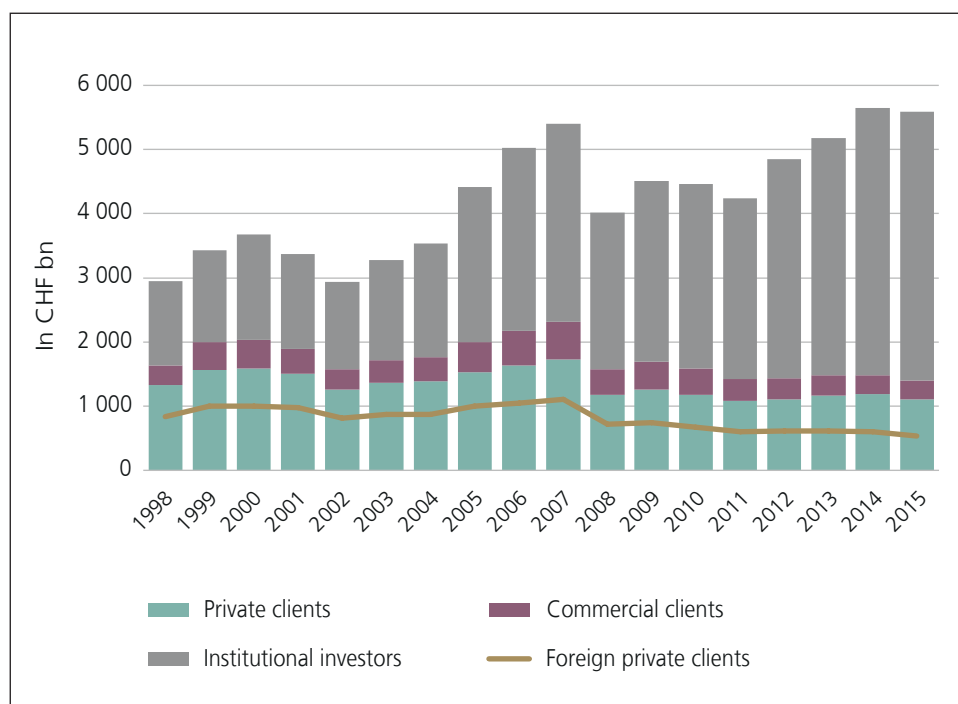
<sup>3</sup> Source: Federal Statistical Office (FSO).

<sup>4</sup> Source: Swiss National Bank.

The Swiss financial centre comprises many different participants of all types, including banks, insurance companies and pension funds:

- According to the SNB, Switzerland had a total of 266 banks at the end of 2015, which was almost 20% fewer than in 2009. Three quarters of this decline was attributable to the shrinking foreign banks segment. The banks in Switzerland had total loans of over CHF 1.2 trillion on their books in 2015, three quarters of which related to domestic mortgage receivables.
- Insurance companies also occupy a very prominent position in the financial sector and account for 47% of value added in the financial sector. At the end of 2015, 214 insurance companies were authorised (and under regulatory supervision) in Switzerland, and more than half of these were active in the property and casualty business (i.e. non-life). The capital investments of Swiss insurers amounted to some CHF 560 billion. Half of this sum was invested in fixed-income securities.
- Other key participants in the Swiss financial centre are the 1,866 pension funds. Their invested capital amounted to some CHF 780 billion at the end of 2014, of which over a third was invested in bonds and just under 30% in equities.
- According to sector estimates, approximately 10% of securities holdings in client custody accounts with banks are managed by independent asset managers. Most of these are small and medium-sized firms and have fewer than 10 employees in many cases.

Figure 2: Holdings of securities in bank custody accounts by client segment (1998-2015)



Source: SNB

By international standards, the Swiss financial centre is one of the world's leading financial centres. This has been shown by international studies such as the Global Financial Centres Index, which places Zurich in ninth place, the top spot among the continental European financial centres, and Geneva in 23rd place.<sup>5</sup>

## Challenging macroeconomic environment

The financial crisis of 2007 to 2009 has had major consequences that are still discernible. Eight years later, the macroeconomic situation of certain national economies – including the eurozone – remains rather weak despite some progress, and growth prospects have not only further deteriorated, but are also unsustainable: government debt is high in many industrialised and emerging economies and has risen further, unlike in Switzerland, not to mention the implicit public debt due to promised old-age pension benefits, for instance. The balance sheets of many banks are still burdened by inherited liabilities from the financial crisis, particularly in certain countries. World trade has lost momentum due to a slowdown in growth in major emerging markets and has lost its role of economic driver. Considerable political uncertainties of various kinds are impeding investment, among other things. Furthermore, a sustained period of uncertainty is to be expected as a result of the UK's referendum on leaving the European Union (EU). Although the economy in Switzerland has proved resilient since the discontinuation of the exchange rate floor in January 2015, the strong franc and moderate global growth have resulted in clear revenue losses both in the export industry and in the financial sector.

The volatile financial markets reflect the fragile macroeconomic setting and the vulnerability of some economies. The global environment of lower or even negative interest rates is ultimately a reflection of the weak growth and low inflation rates in Switzerland and other industrialised nations. Aside from banks, insurance companies and pension funds in particular are affected by shrinking revenue. Low or negative interest rates also encourage governments and households to take on more debt and create incentives for the search for better (and riskier) yield opportunities. In addition, the stability risks posed by the real estate sector have not yet been fully averted in Switzerland either, even though prices have flattened recently. Moreover, the regulatory environment has become more complex despite international efforts for greater coordination. This is particularly challenging for the internationally oriented Swiss financial centre.

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<sup>5</sup> The September 2016 edition of the Global Financial Centres Index examined 87 financial centres. London is in top position, followed closely by New York. The Asian financial centres of Hong Kong and Singapore follow in the third and fourth place. Different elements of competitiveness, such as infrastructure and human capital, are analysed along with individual segments of the financial sector, such as banks and insurers.

### **“Brexit”**

On 23 June 2016, the people of the United Kingdom voted by a majority in favour of leaving the European Union (EU). As soon as the UK formally notifies its withdrawal desire to the European Council, a two-year period will start to run for negotiating a withdrawal agreement. The UK will remain an EU member and will be bound by EU legislation during that period. For the post-withdrawal period, the UK could in principle seek to remain (fully or partially) in the EU single market for financial services by concluding a bilateral treaty. Alternatively, it could become a third country with access to EU markets granted on a case-by-case basis through the recognition of its regulation and supervision as equivalent.

There is considerable legal uncertainty in the short to medium term for Swiss financial service providers in the UK and for cross-border financial services to the UK with regard to the regulatory framework and the future of London’s financial centre. It is therefore a matter of urgency to clarify the UK’s future relationship with the EU and important partner states. Although the financial centres of Switzerland and the UK are closely linked, they also compete against each other. While asset management and investment banking are well-established strengths of London’s financial centre and are likely to remain so, Switzerland can build on its strong position in the area of cross-border asset management. Nevertheless, it is still too early to draw conclusions on the impact of a Brexit on the Swiss financial centre and on the cross-border provision of financial services from Switzerland. The mutual recognition of the supervisory and regulatory framework as a prerequisite for market access could provide an opportunity to strengthen competition between the two countries. By consistently strengthening its framework conditions (such as in the area of taxation), Switzerland will be able to also improve its relative competitive position on its own.

### **International regulatory efforts**

In order to increase the stability of the financial system, the G20 countries have set themselves the goal of eliminating the vulnerabilities in the financial system that came to light during the global banking and financial crisis through an internationally coordinated approach. At the same time, comparable and consistent regulations for the financial sector should create the basis for greater economic growth. On behalf of the G20, which acts as a global steering body for economic and fiscal policies, the Financial Stability Board (FSB) is driving forward the further development and implementation of standards for financial market regulation at the international level. In doing so, it builds on the support of the International Monetary Fund (IMF) and the key international standard-setting bodies.<sup>6</sup>

<sup>6</sup> These bodies are namely the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), and the Financial Action Task Force on Money Laundering (FATF).

Also as a result of the prevailing high levels of public debt in many countries, the fight against tax evasion and the related cross-border exchange of tax information have been placed high up on the agenda of international bodies, particularly the Organisation for Economic Co-operation and Development (OECD), and the foreign policies of many countries.

International standard setting in the financial sphere has grown in importance for national legislation. Compliance with such standards is increasingly considered as a minimum requirement for good international cooperation, particularly in financial market supervision. This limits the possibilities for pursuing and implementing independent regulatory approaches.<sup>7</sup> This in turn tends to result in the Swiss financial centre not being able to exploit as much potential for differentiation as other financial centres. At the same time, national specificities in the regulations of key partner states that have been retained or recently introduced, as well as specific duties for foreign service providers, such as a branch requirement, may have the effect of restricting market access. National or EU regulations such as these render cross-border financial service provision difficult or more expensive. Given the international orientation of the Swiss financial centre, the aim must be to maintain foreign markets as open as possible for Swiss financial service providers and ensure that they are not put at a competitive disadvantage in these markets.

### **Rapid technological progress**

Rapidly progressing digitisation in all economic areas presents new possibilities and accelerates structural change. New technologies allow new ways of providing services and infrastructures in the area of finance. This includes increasingly complete applications on mobile end-user devices and the growing availability and capacity for the analysis of big data. Underlying financial services are digitisable, can be scaled and customised as desired and distributed without physical contact. This facilitates market entry for companies outside of the sector, lowers transaction costs and increases productivity, which in turn reorganises the value chain and leads to greater outsourcing of business activities. Financial centre diversity thus increases. While digitisation offers many opportunities that should be exploited in order to enable growth, such as greater efficiency and financial inclusion, it also involves risks with regard to the handling of private data, the impact on systemic stability and customer protection.

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<sup>7</sup> The Federal Council took account of Parliament's request for better inclusion when preparing recommendations and decisions of international organisations or multilateral bodies, including in international standard-setting processes, with the amendment of the Government and Administration Organisation Ordinance (GAOO) which took effect on 1 August 2016. In the amendment, it defined rules for the consultation of the parliamentary committees responsible for foreign policy in the case of major projects.

Innovative, IT-related companies digitise financial services and act as providers of these services and infrastructures for clients (so-called fintech companies). They develop mobile payment systems and blockchain technology applications, program virtual assets and currencies and open crowdfunding platforms online. Their services often complement or replace those offered by traditional financial service providers. This kind of innovation is not only an important factor in the competition between financial companies, it is also a significant locational advantage for the financial centre. Therefore, it is fundamentally important that financial market regulation does not unnecessarily complicate or even prevent market entry in Switzerland for fintech companies. They should be offered a regulatory framework that allows them to make optimum use of the opportunities provided by digitisation.

# 3 Strategic directions of financial market policy

In its financial market policy, the Federal Council pursues pragmatic yet ambitious objectives to respond to the challenges posed to the financial centre and also the government. The areas of action described below explain the Federal Council's priorities. Specific steps for the authorities will also be outlined, without being exhaustive.



**Preserving and improving market access**



**Enabling innovation**



**Ensuring international conformity in the areas of taxation and money laundering**



**Optimising regulatory content and processes**



**Limiting systemic risks**

## 3.1 Preserving and improving market access



Agreements for enhanced framework conditions in international business are concluded, wherever possible, with states that are important for the Swiss financial centre. The focus here is on countries that are of great importance for business conducted out of Switzerland or that have significant growth potential. In this way, legal certainty in cross-border financial business should be enhanced through the recognition of regulation and supervision and through other forms of supervisory cooperation. It should also be sought to open markets within the framework of the World Trade Organisation (WTO) and free trade agreements.

Recognition of the equivalence of Swiss financial market regulation and supervision will be sought with the EU in areas where this is meaningful for Switzerland from a general economic perspective. Switzerland is working to ensure that the EU equivalence procedure is conducted as swiftly as possible so as to guarantee legal certainty and planning accuracy for the Swiss financial sector and legislature. A comprehensive financial services agreement with the EU cannot be ruled out altogether as a long-term option.

The qualities of the Swiss financial centre will be made more evident abroad in the future. The focus here is on the appeal of the Swiss financial centre for an international clientele and as a location for financial institutions. This will have to be closely coordinated with the Confederation's financial market policy and strategy as regards content. On the part of the authorities, the State Secretariat for International Financial Matters (SIF) will assume the coordinating role and provide support for the corresponding activities within the sector.

### Specific steps

- The FDF will strengthen its dialogue on financial matters with important EU partner states (particularly Germany, United Kingdom, France, Italy and Spain) and with other priority countries outside the EU with the aim of concluding agreements on improved conditions in international business and enhancing the competitive conditions and legal certainty in cross-border financial business. SIF and FINMA will step up their cooperation in this respect.
- In relation to the EU, the FDF will seek recognition of Swiss regulations and supervision as equivalent in key areas for the financial centre. The focus here will be on the areas of funds, services for professional investors, trading platforms and derivatives trading. To this end, SIF will intensify its technical talks with EU institutions and important EU partner countries.
- Within the framework of financial market policy, the FDF will play a more visible role in promoting the financial centre, ensuring coordination with the sector's initiatives (e.g. creation of a sector platform). Activities will be carried out to enhance the perception of the framework conditions and the financial centre's strengths abroad.

## Regulatory and supervisory cooperation

In an international financial environment that is regulated comprehensively and in detail but at the same time is competitive, it is particularly important that foreign markets are open to Swiss financial service providers. Swiss providers must also not be discriminated against abroad vis-à-vis service providers from competing business locations or placed in a worse position in terms of regulation and supervision. Switzerland works hard to shape the framework conditions for the international business of Swiss financial service providers based on these objectives. This includes efforts to open up the market in the financial services area through the WTO and free trade agreements. Essentially, the challenge in this context is to guarantee Swiss service providers sufficient legal certainty and planning accuracy for their international business activity, both in relation to individual countries worldwide and vis-à-vis the EU. Up to now, Switzerland has concluded agreements with selected partner states on market access for Swiss financial service providers in the form of an easing of supervisory requirements and legal clarification of them, for instance. These efforts are to be pursued consistently.

With regard to cooperation between authorities, the EU institutions have a special role as the point of contact for Switzerland: progress has been made on the harmonisation of the EU single market and on market integration in the EU area, which may bring with it a relative deterioration of the Swiss financial centre's position in Europe. In addition, some of the regulatory powers of the EU member states have been transferred to the EU level. In this context, the provisions and equivalence procedures for third countries contained in EU law in particular, which may provide an easing of requirements and restricted access to the EU single market, are of key importance for the Swiss financial centre. Switzerland is therefore working towards ensuring that the EU authorities apply these third-country regimes transparently and in a results-oriented manner and take due account of the geographical embeddedness of the Swiss financial centre in Europe. At the same time, EU members continue to enjoy extensive powers for the regulation and supervision of third-country providers, particularly in the area of supervisory legislation, and many countries have specific authorisation regimes for cross-border services. This makes it possible for Switzerland to achieve an easing and improvement of the existing supervisory and authorisation regimes in the EU area in its exchanges with the supervisory authorities of these countries.<sup>8</sup> Also in relation to the EU, the framework conditions for international business were improved for Swiss financial institutions via a range of procedures for EU equivalence recognition.<sup>9</sup>

As a result of international developments in recent years, financial institutions have raised their awareness of possible legal and reputational risks, particularly in cross-border business. It is also important for this reason that regular exchanges take place with the competent foreign authorities about current developments on the markets as well as for regulation and supervision. In this process, obstacles and legal uncertainty are identified at an early stage and possible solutions are agreed. Efforts can also be made in good time to implement internationally recognised standards consistently. If the competitiveness of Swiss financial service providers in international business is to be safeguarded, it is essential that good relations are actively maintained and that there is effective international cooperation between financial market authorities.

<sup>8</sup> For instance, an agreement was reached with Germany that allows Swiss banks to provide their services in Germany on a cross-border basis from Switzerland, i.e. without being physically present, provided compliance with German law is ensured.

<sup>9</sup> In 2015, the European Commission recognised the equivalence of Swiss regulation and supervision for some financial market infrastructures (central counterparties) and in the insurance sector.

## Financial centre promotion

In 2014, the group of experts appointed by the Federal Council for the further development of the financial market strategy recommended in its final report enhancing the positioning of the Swiss financial centre abroad. This measure should be seen in the context of growing competition between international financial centres. It is therefore desirable to achieve a public image that is as consistent and effective as possible.

The authorities' activities collectively referred to as financial centre promotion are for the purpose of achieving financial market policy that emphasises the strengths of the Swiss financial centre and actively protects the interests of Switzerland. The contents represented to the outside world are coordinated and consistent with Swiss financial market policy and hence also designed for stability and durability. As far as possible, all sector participants (especially banks and insurers) active in international business should be involved, thus enabling the broadest possible support to be ensured. It is also advisable to coordinate the activities of the sector and the authorities effectively.

In concrete terms, the public sector should work in three task areas: firstly, by providing information and communicating; secondly, by coordinating participants' activities; and thirdly, by opening doors for the sector. Possible duplication with other federal activities are avoided and these activities are coordinated with the interested bodies (particularly SECO, Switzerland Global Enterprise, Presence Switzerland), including in relation to the use of funds. The main message to be conveyed concerns the advantages and strengths of the Swiss financial centre as one of the world's leading financial centres.

## 3.2 Enabling innovation



The regulatory environment for the financial sector should promote competition within the sector and enable market access also for service providers with innovative business models that use new technologies. Given the momentum in this area, it is an important concern that Swiss financial market law is shaped in such a way that the rapidly progressing digitisation in the financial sector can be exploited as an opportunity. A competitive environment for established financial service providers and new market entrants will strengthen the financial centre in international competition. Effective, risk-based financial market supervision is not at odds with a financial centre that changes in the course of rapid technological development.

Important innovations in the financial sector also happen in the pursuit of sustainable investments. Swiss financial institutions and investors should play their part in the mitigation and management of global environmental risks and in the transition to a resource-saving economy. Future needs for suitable products present the financial centre with opportunities to build on its strengths in the analysis and management of such risks, particularly in the insurance sector and investment. The financial centre can also raise its profile in the international competitive environment by

focusing on sustainability in financial business. At the same time, any environmental stability risks for the global financial system and for Switzerland should be identified and reduced if possible.

### Specific steps

- The regular dialogue that the FDF has established with the private sector will be intensified so that future challenges (accelerated structural change, breaking up of the value added chain, etc.) can be used positively for the financial centre. The focus will be on providing appropriate framework conditions for innovative business models, products and processes.
- For innovative financial service providers (e.g. fintech providers) that do not conduct traditional banking business, the FDF is proposing legislative adjustments for new forms of authorisation and an enlargement of the authorisation-exempt area. Solutions such as these should lower the barriers to market access for new forms of financial business.
- The sector's initiatives to further develop the expertise and innovativeness of the financial centre in the area of sustainable investment will be supported. The competent authorities will be actively involved in work at the multilateral level, including in the G20 context, with a particular emphasis on environmental risks.

### Technological change and regulation

Innovation is an important factor in the competition between financial institutions. The regulatory framework should enable innovation and competition and generate growth. Preserving structures would restrict the international competitiveness of Swiss financial institutions in the long term and thus make the Swiss financial centre less attractive overall. In particular, outdated regulation can create barriers to market access for new service providers, which would weaken the Swiss financial centre's ability to innovate. On the other hand, the development of new technologies can allow even non-banks to offer financial services in unregulated areas and without adequate supervision.

Against this backdrop, the regulation should be checked with regard to technological developments (including blockchain technology applications) and any possible need for regulatory action in the area of innovative financial technologies should be responded to.<sup>10</sup> Of particular interest here is how appropriate the current legal framework (forms of authorisation, exclusions from the scope, etc.) is for innovative financial service providers. This should be adjusted in such a way that the market can thrive.

<sup>10</sup> Various parliamentary procedural requests call for the regulatory framework to be reviewed and for swift action by Switzerland. For instance, the Federal Council was instructed by way of postulate 15.4086 to determine which measures will enable the financial centre's competitiveness in the area of new technologies to be strengthened and enhanced.

## Financial market policy and sustainability in financial business

The inclusion of environmental factors and risks is relevant in two ways when it comes to financial market policy: firstly, (major) environmental incidents<sup>11</sup> are also risk factors for the stability of the financial system. Secondly, opportunities are arising for the Swiss financial sector in this area with the emergence of new, growing business areas and investment opportunities. Thanks to its general expertise in the environmental sector and its specialist knowledge in the financial sector, Switzerland has the potential to develop a lasting competitive advantage.

With regard to the national and international discussions on the issue (e.g. within the G20, the FSB and the Paris Agreement<sup>12</sup>) the Federal Council defined principles for Switzerland's position at the start of 2016.<sup>13</sup> According to these principles, the government is to ensure framework conditions that enable sustainable economic development and prosperity, taking into account the effects of investment and consumer behaviour on the environment. These conditions should allow the financial centre to be sustainable and internationally competitive. Subsidies or niche promotion are explicitly ruled out. The Federal Council's principles are geared accordingly to the primacy of market solutions and to the subsidiarity of state action, and focus on transparency and the long-term outlook. There is often a lack of transparent and reliable information and methods, which are the basis for adequate consideration of environmental factors and risks in financing and investment decisions and ultimately efficient price fixing in macroeconomic terms. The authorities' work is carried out in consultation with the financial sector and the state can support the sector's efforts to open up this area of business to sustainable investments by improving the general framework conditions in the financial sector. However, the initiative should come from the sector itself if the Swiss financial centre is to be positioned as a hub for sustainable investment.

### 3.3 Optimising regulatory content and processes



The content of financial market regulation and the priorities in pursuing necessary reform projects must be aligned with the objectives of financial market policy. An optimal regulatory process clarifies any possible need for action at an early stage. This process involves market participants in an appropriate manner and enables pragmatic solutions that are acceptable for the financial sector, based on the development of economic impact assessments alongside project delivery.

A well-founded, full and independent ex-post evaluation should be performed on selected, important regulations in the financial sphere to ascertain their effectiveness and identify the possible need for deregulation or reregulation. The existing regulatory process can be rounded off in this way. SIF maintains an overview of the status of reform projects in the financial sphere and provides transparency in this respect.

<sup>11</sup> For example, large-scale floods, landslides, forest fires or severe drought, which can impact infrastructure and the supply chain considerably.

<sup>12</sup> The international community set itself the goal in the Paris Agreement in 2015 (Art. 2.1 c) of making financial flows climate-friendly.

<sup>13</sup> See the FDF press release of 24 February 2016 ("International financial bodies discuss sustainability issues: Federal Council defines Switzerland's role").

In the creation and further development of international standards, compliance with which is important and desirable for the Swiss financial centre, Switzerland is essentially committed to ensuring a structure that is compatible with its legal system. It supports consolidation and a greater focus on impact in the international regulatory agenda in the area of financial markets. It pays particular attention to ensuring that everyone is treated on an equal footing in international bodies' peer reviews. In this respect, Switzerland's positions must be coordinated at an early stage among the authorities concerned.

### Specific steps

- The regulatory process in the financial sector should be performed transparently with the sector's involvement and take into account early considerations regarding economic effects. SIF will optimise this process and make up-to-date information on the ongoing regulatory reform projects available to the public.
- The FDF will initiate ex-post evaluations for selected existing financial market regulations for which there are sufficient empirical values. Such an evaluation could be performed on the Collective Investment Schemes Act (CISA), for instance. The authorities and sector will commission these evaluations from independent offices.
- Switzerland's involvement in the work of the IMF, FSB, OECD and most important standard-setting bodies in finance will be intensified. In doing so, it will seek to ensure consolidation and a greater focus on impact in the international regulatory agenda. SIF, FINMA and the SNB are to strengthen their coordination in this respect.

### Shaping the regulatory process at the national level

The regulatory process in Switzerland is divided into four phases. Where an actual need becomes apparent during the first phase for clarifying the need for regulatory action, this is followed by a formal regulatory procedure in the second phase. Actual enforcement under the responsibility of the parties concerned begins once the regulations (including ordinances and circulars from the supervisory authorities) come into force. An evaluation phase concludes the regulatory cycle.<sup>14</sup> These phases are described in greater detail as follows:

**Phase 1:** In the phase for clarifying the need for regulation, the focus is on fundamental issues (e.g. an assessment of whether a market failure exists) and the systematic early identification of international developments. Market participants should also contribute to this using their own networks. New regulatory projects are outlined at an early stage and are adapted to the regulatory need identified. In addition, initial observations regarding the economic effects of regulation (cost-benefit considerations) are made. FINMA must also clarify the need for regulation applied by it and consider the cost implications for those concerned.

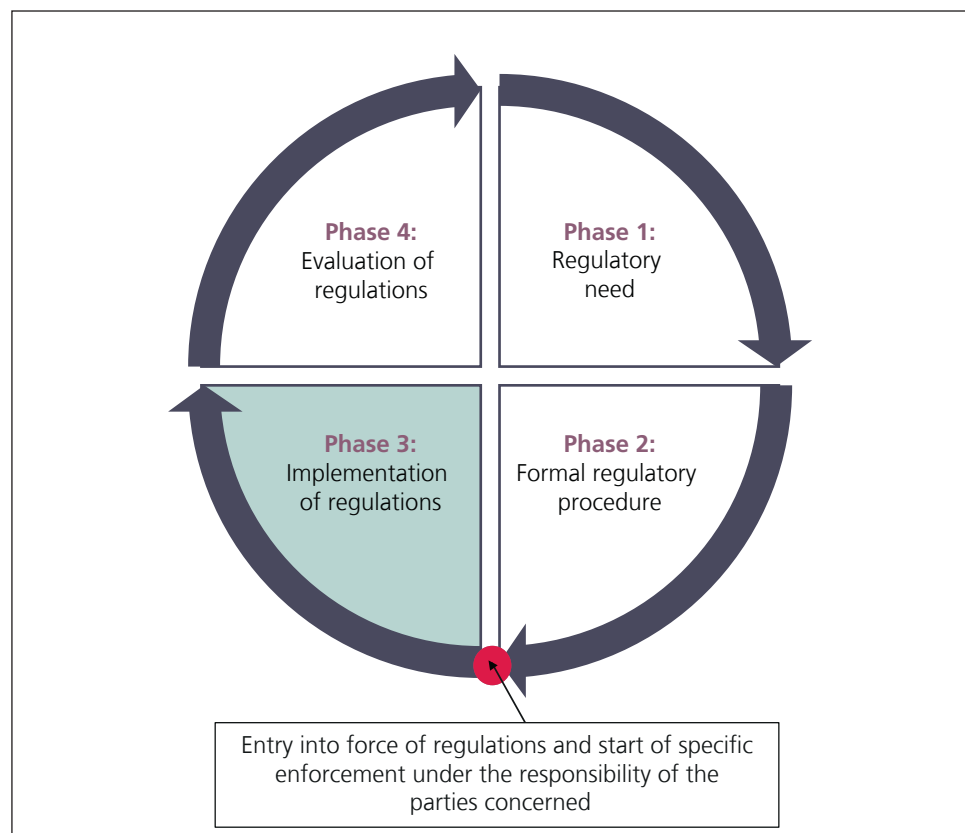
<sup>14</sup> See the final report, including Annex 1, of 1 December 2014 by the group of experts for the further development of the financial market strategy for an analysis of the regulatory process and conclusions for shaping it optimally.

**Phase 2:** If the Federal Council issues a mandate to prepare a consultation draft, the actual legislative process is set in motion. At the same time, economic impact analyses are initiated and subsequently prepared alongside the implementation of the regulations based on existing legislation and requirements within the Confederation on regulatory impact assessments (RIA). The office in charge of drawing up an RIA must be involved right from the start, regardless of the level of regulation (act, ordinance, FINMA ordinance or circular).

**Phase 3:** The third phase in the regulatory process is implementation, during which the parties concerned acquire specific experience in enforcement and apply the regulations (see shaded area in Figure 3). In addition to financial institutions, the parties concerned also include FINMA, which is responsible in this phase for supervision performed independently of the political authorities.

**Phase 4:** After sufficient experience has been acquired in the implementation and application of regulations, they are then ready for a systematic and independent evaluation of their effectiveness and efficiency. An evaluation of this kind provides the possibility to clarify the need for adjustments to the existing regulations if, for example, unnecessary costs for those concerned or a failure to meet objectives is identified. This concludes the regulatory cycle.<sup>15</sup>

Figure 3: Phases of the regulatory process



<sup>15</sup> An example of an evaluation clause in Swiss financial market law is Article 52 of the Banking Act (see section 3.4).

### Involvement in regulatory work at the international level

The Swiss financial centre is for the most part globally oriented and integrated into the international financial system. This also means that international market regulation developments, such as within the scope of standard setting and legislative changes in other major financial centres, are highly relevant for the business of Swiss providers; these developments also influence the Swiss regulatory process accordingly.

International cooperation on the establishment and further development of international standards has important advantages for the Swiss financial centre such as increased financial stability, the creation of a level playing field for Swiss financial market participants in terms of global competition and reduced costs or fewer barriers to market access resulting from contradictory regulations. However, these advantages are reaped only if the rules are observed and implemented internationally and particularly in all relevant financial centres. For this reason, Switzerland works to ensure that the implementation of international standards is monitored (e.g. by way of peer reviews) and, in doing so, pursues its interest in the creation or preservation of a level playing field.

In the meantime, regulatory activities have become more detailed and broader, which makes their consolidation necessary. Switzerland welcomes efforts to ensure greater scrutiny of the effectiveness and coherence of the international regulatory agenda which is further developed in multilateral financial forums (especially the FSB, OECD, IMF, FATF, BCBS, IOSCO and IAIS). In this respect, it supports moderate regulation that is consistently geared towards significant risks. In order to actively shape the content of standards, Switzerland seeks to establish alliances with like-minded countries where possible. An active presence in the aforementioned forums also makes it possible for Switzerland to identify important initiatives at an early stage and to bring its position to bear.

## 3.4 Limiting systemic risks



The existing mechanism for protecting the proper functioning of the financial system – and also individual clients – is robust and should be strengthened further only if appropriate for systemic importance reasons. The corresponding work at the international level to strengthen the capital and liquidity buffer for banks and insurers is to be monitored closely. In accordance with the Banking Act, the Federal Council is required to submit to Parliament every two years a report evaluating Switzerland's "too-big-to-fail" regime by international standards. To limit existing systemic risks, significant adjustments to banking legislation have already been carried out for systemically important institutions.

Furthermore, legislative amendments are being pursued which will improve how depositor protection works by building on the existing system. Equally desirable is the reduction of identified systemic risks in the real estate market due to high mortgage volumes and the high degree of indebtedness of households. Protecting the financial basis of occupational pension schemes in Switzerland is another important issue, also within the framework of the 2020 retirement provision reform.

### Specific steps

- SIF, the SNB and FINMA will strengthen their cooperation on systemic stability matters. The aim of this is to achieve a regular exchange of information and opinions and the pooling of specific expertise, while maintaining the responsibilities of the authorities concerned.
- SIF reviews the Swiss “too-big-to-fail” regime for systemically important banks in a two-year cycle (in accordance with Art. 52 of the BankA). The effect of the existing “too-big-to-fail” regime, regulatory developments at the international level and the aspect of international competitiveness in particular will be taken into account here.

### Systemically important banks (“too big to fail”, TBTF)

Based on an initial review of the mechanism to counter “too-big-to-fail” risks which has existed since 2012, the Federal Council enacted amendments to the Capital Adequacy Ordinance and the Banking Ordinance on 1 July 2016. The main focus of the measures, which are also guided by international standards and the requirements of leading financial centres, is on newly designed capital requirements for systemically important banks. These banks should have sufficient capital to ensure continuity of business activities so that even in a stress scenario they do not require state support and do not have to be restructured or wound up (going concern requirements). As it is not possible to prevent a restructuring or wind-up in every case, global systemically important banks must hold additional capital to guarantee their restructuring or continue the systemically important functions and wind up the other units without recourse to public resources (gone concern requirements).

For Switzerland, which continues to be the home of very large financial institutions both in terms of the size of the country and internationally, systemically important banks pose a particular challenge.<sup>16</sup> With the implementation of the new provisions, the risks posed by these banks are reduced further and supervision can focus on consistent implementation. Strengthening the TBTF regime in Switzerland helps to maintain and improve the appeal of the Swiss financial centre as a business location in the medium and long term.

### Depositor protection

The depositor protection system guarantees depositors payment of their secured deposits if a bank finds itself in difficulty. In Switzerland, depositor protection is performed in the form of self-regulation of banks and securities dealers by *esuisse*, which makes the required funds available from its member institutions in the event of insolvency. During the financial crisis, immediate measures were taken to strengthen the depositor protection system established in 2004. Both the extent of protection per client and the scheme funding ceiling were increased in particular. The legislative amendments that were issued temporarily were enshrined in permanent legislation in 2011. In December 2014, the group of experts for the further development of financial market strategy agreed that there was a need for action in the current depositor protection system. The Federal Council welcomed a rapid improvement and review of this system by self-regulation in accordance with the recommendations made by the group of experts.

<sup>16</sup> In Switzerland, the SNB has also classed Zürcher Kantonalbank, the Raiffeisen Group and PostFinance as systemically important banks in addition to the two big banks Credit Suisse and UBS.

The very size of the real estate and mortgage market, its significance in the loan portfolios of Swiss banks by international standards, its high degree of debt financing and the strength of its cyclical movements all make this market a significant and at the same time potentially destabilising factor for the economy as a whole. The current tax system favours debt over equity. These tax incentives cause households to choose higher levels of indebtedness than they would be willing to sustain in a world without distorting taxes. Since borrowed capital is generally provided by financial institutions, the tax-related debt incentives must also be examined with regard to the stability of the financial system. With these economic risks in mind, the advisory board for the future of the Swiss financial centre recommended in June 2016, based on a report by the authorities, that the Federal Council aim for a change of system with the abolition of both imputed rental value and deductibility of mortgage interest. However, the Federal Council is not proposing a change of system for the time being.

The financial coverage ratio of occupational benefits provision is another aspect with a potentially systemic impact. The parameters (e.g. minimum interest rate for interest on retirement assets, conversion rate for converting retirement assets into an old-age pension, and the age of retirement) greatly influence the benefits paid to insured person.<sup>17</sup> However, these parameters can also affect the way in which pension funds and life insurers generate the benefits promised, i.e. their investment behaviour.<sup>18</sup> Unrealistic promises of benefits increase the risks for pension funds and can lead to restructuring expenses.

### 3.5 Ensuring international conformity in the areas of taxation and money laundering



Starting in 2018, Switzerland will exchange tax information with designated partner states and the EU on the basis of the OECD standard on the automatic exchange of information. It will ensure that the principles enshrined in the standard (especially reciprocity, confidentiality and data protection, and the clarification of beneficial owners) are complied with. Regularisation programmes and market access opportunities are other concerns Switzerland has vis-à-vis these partner states. With regard to the United States, the aim is to agree a changeover to a Model 1 FATCA agreement.<sup>19</sup>

<sup>17</sup> While the minimum interest rate is usually agreed annually and can be adjusted, this does not apply in the case of the statutory conversion rate for the mandatory benefit coverage or the conversion rates for existing pensioners. However, the conversion rates funds providing over-obligatory benefits can be set quite freely.

<sup>18</sup> Life insurers are subject to two restrictions in the occupational pensions business: the so-called minimum rate means that they pay insured persons a large share of any gains but shoulder any losses on their own. The solvency requirement means that life insurers are actually able to assume these losses and do not go bankrupt when faced with the smallest of losses. These requirements oblige life insurers to make less risky investments with a rising minimum rate.

<sup>19</sup> FATCA Model 1 makes provision for the automatic exchange of information between tax authorities. For this purpose, Swiss financial institutions have to disclose the account details of US persons to the Federal Tax Administration FTA instead of directly to the US tax authority like provided for with the currently applicable FATCA Model 2.

Switzerland is actively involved in the development of international standards by the OECD and G20 to prevent base erosion and profit shifting (BEPS) by companies operating internationally and is intent on taking account of the minimum standards prepared in this framework. This also includes introducing the automatic exchange of country-by-country reports between tax authorities.

Switzerland fully supports the efforts of the international community to combat money laundering and terrorist financing. It has already implemented the relevant revised Financial Action Task Force (FATF) standards in Swiss law and has thus showed its political will to carry out swift and standard-compliant internal legislative amendments in this area. It is actively involved in the ongoing and further work within the FATF and other bodies that deal with these matters.

### Specific steps

- Switzerland will conclude agreements on introducing the AEOI with other priority partner states based on the global OECD standard, and it will bring its specific concerns to bear here. It will work to ensure the widespread introduction of the AEOI, particularly by other international financial centres, to preserve a level playing field at the international level. Switzerland will reach a Model 1 FATCA agreement with the United States on the exchange of bank information between tax authorities.
- Switzerland will conclude agreements with important partner countries on the exchange of information between tax authorities concerning country-specific business activities. In this way, Switzerland will be implementing the global standard set by the OECD's BEPS project.

### Cooperation in tax matters

Switzerland actively campaigns in the Global Forum on Transparency and the Exchange of Information for Tax Purposes (Global Forum) for the implementation of the OECD's international standard on the automatic exchange of financial account information (AEOI standard). By the end of 2016, the Swiss Parliament is likely to have approved the AEOI agreement already concluded with the EU and Australia as well as the introduction of the AEOI with Australia, Jersey, Guernsey, the Isle of Man, Norway, Canada, Japan and the Republic of Korea. This makes it possible to start exchanging information with 38 countries and territories in accordance with the OECD standard from 2018 on. Switzerland is negotiating with another group of important partner states with the aim of concluding joint declarations and agreements. The application of the OECD standard by partner states creates a level playing field, which enables Switzerland to benefit from the same competitive conditions as other competing financial centres. Moreover, Switzerland has been implementing the standard on the exchange of information on request with its partner states since 2009.<sup>20</sup>

<sup>20</sup> In October 2016, Switzerland had signed 53 double taxation agreements (DTAs) and 10 tax information exchange agreements (TIEAs) that comply with the international standard, of which 47 DTAs and 7 TIEAs are in force.

In the area of corporate taxation, Switzerland was actively involved in the BEPS project of the OECD and G20, which was concluded in October 2015 with the publication of the outcomes. The third series of corporate tax reforms and other measures will ensure the implementation of the minimum standards produced by this project in Switzerland.<sup>21</sup> The OECD is currently preparing an instrument for monitoring the implementation of the BEPS outcomes by the jurisdictions. At the same time, other jurisdictions should be included. The measures taken help to ensure greater international acceptance of Swiss corporate tax law and to make Switzerland more attractive as a business location.

### **Money laundering and terrorism financing**

In relation to combating money laundering and terrorism financing, the Federal Act for Implementing the Revised FATF Recommendations of 2012 came into force in two stages in 2015 and 2016. This gave market participants the time needed to make organisational and procedural changes. The FATF conducted the fourth mutual evaluation of Switzerland over the course of 2016 to assess its anti-money laundering and counter-terrorist financing regime. The aspects checked included whether or not Switzerland had taken appropriate and effective measures in the areas of risk identification, prevention, monitoring, reporting system, criminal prosecution and mutual and administrative assistance with other countries. The findings of this evaluation are also to be taken into account at the national level by way of possible further measures, where applicable.

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<sup>21</sup> With the third series of corporate tax reforms, Switzerland is also implementing the mutual understanding of October 2014 with the EU. Here, the Federal Council reaffirmed its intention to abolish the tax regimes criticised by the EU and to base new tax measures on international standards

# 4

## Implementation

The authorities seek regular dialogue with the private sector, they coordinate their views and they actively position Switzerland at the international level. This consciously sought exchange at various levels supports the further pursuit of the areas of action described and the fulfilment of objectives. Clarity regarding national interests is also a prerequisite for ensuring that Switzerland's position on financial market and tax matters is heard abroad.

### Determining the interests in Switzerland ...

The open dialogue on financial market policy and strategy with the financial sector and other interested circles is pursued and maintained on the basis of the bodies for dialogue established by SIF. This makes it possible to support opinion making and consensus finding within the financial sector, which helps to clarify the interests and priorities of all financial centre participants with regard to the framework conditions.

Regular, effective coordination of the views taken by the federal authorities responsible for financial market and tax issues must be ensured. This supports problem-solving at the national level and the representation of Swiss interests to the outside world. Cooperation between the authorities responsible for financial market issues, particularly with respect to market access issues and the work of standard setters, must be intensified further, without however calling the mandates of the respective authorities into question.

Cooperation between SIF, FINMA and the SNB with regard to systemic stability matters will be further pursued in order to support the regular exchange of information and opinions and the pooling of specific expertise. In doing so, the existing cooperation mechanisms should be developed further, while maintaining the roles and responsibilities of the authorities concerned.

There are two bodies for dialogue with the financial sector in the form of the strategically oriented "advisory board for the future of the Swiss financial centre" and the "financial market policy forum" which is called on for daily business, both of which are regularly involved in the strategic further development and implementation of financial market policy measures. In this way, any need for action can be clarified in good time, broadly based on the principles of financial market policy. These bodies have no decision-making powers and do not replace regular legislative processes:

- The *advisory board* regularly assesses important strategic directions for financial business and financial market policy, isolated from the daily business of the authorities. It assesses the opportunities, risks and future prospects for the financial centre with a view to the economy as a whole. It deals with topics and developments that are paramount for the future of the financial centre as an important pillar of the national economy. The advisory board should enable a

shared understanding of these among the economic players concerned and the authorities, while respecting and bearing in mind the respective roles. If the advisory board identifies a need for action, it can submit the corresponding recommendations to the Federal Council. Currently led by a representative of academia, the advisory board comprises representatives of the business sector, the financial sector, employees, academia and the interested Swiss authorities.

- The *forum* follows the daily business of the authorities in the area of financial market policy. It is the discussion and consultation body for the activities currently under way or planned by the authorities. The authorities and sector representatives mutually inform each other of their assessments of the economic and regulatory developments in Switzerland and abroad. They can then deduce the challenges and desirable measures from this. This dialogue thus helps to ensure early identification, set priorities in financial market policy and assess the impact of current regulatory projects. Led by SIF, the forum comprises representatives of the financial sector and the competent Swiss authorities.

The dialogue among the financial market authorities, particularly SIF, FINMA and the SNB, must also be focused on implementing the Federal Council's financial market policy, achieving its objectives and applying its principles. For instance, in the area of the early identification of international developments in particular, open and regular exchanges about the content of financial market policy, with regard to all its objectives, and about desirable state measures must be maintained between the competent authorities.

### ... and protecting its interests vis-à-vis other countries

Switzerland has set itself the objective of further strengthening bilateral financial relations as well as its regulatory and supervisory cooperation with important partner states. Talks on financial market and tax issues are held regularly with neighbouring countries, the EU institutions and the G20 countries as well as the key locations for the Swiss financial centre in the global financial services business. Relations with selected countries should also be strengthened through technical support. SIF holds financial and regulatory talks with the involvement of the other financial market authorities.

Switzerland's participation and active involvement in the work of international financial bodies and within the G20 continue to be a key component of protecting its interests. Its membership of the IMF, FSB and OECD in particular ensures that Switzerland is well positioned to identify regulatory and tax initiatives at the international level early on, to get involved in these initiatives if it so wishes and to firmly present its position.

Engaging in direct dialogue with the competent authorities abroad is an effective way of representing and protecting Switzerland's interests at the international level. Financial or regulatory dialogues offer a suitable platform to reach agreements with selected partner states in areas concerning financial market policy such as regulation and positioning in international forums. These dialogues also offer an opportunity to raise Swiss concerns in areas such as market access. For instance, Switzerland used this bilateral framework in 2015 and 2016 to exchange views with Brazil, Canada, China, the EU, Germany, Hong Kong, Iran, Japan, Poland, Singapore, the UK and the United States.

In the context of official dialogue with emerging market partner countries, it may be helpful if Switzerland provides technical support for financial market or tax authority representatives from these countries. This support may also be provided as part of the programmes of multilateral organisations. It is also conceivable that the Swiss authorities become involved as part of practical offers from Swiss institutes and universities to provide continuing professional development for managers from financial institutions from important emerging market countries.

Switzerland's interests are also protected through active involvement in multilateral forums and organisations, including the IMF, FSB, OECD, the G20's Finance Track and the standard-setting specialist bodies (BCBS, IOSCO, IAIS, FATF), where international standards or recommendations are formulated for national authorities. The preparation and further development of these specifications are based on extensive and detailed preliminary work. While these specifications are not legally binding, they are used as a yardstick for assessing the equivalence of national regulation and supervision in financial business or are integrated into mandatory international standards. Therefore, it is essential for Switzerland to maintain its prominent position in the international system, continue to hold a seat in the decision-making committees of key bodies and presents its position on international initiatives already at an early stage on those committees.

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# Appendix I: Principles of Switzerland's financial market policy

Financial market policy that shapes the framework conditions relevant for financial business comprises financial market regulation and supervision, the tax treatment of financial transactions as well as international cooperation and active involvement and the positioning of Switzerland. Financial market policy determines the commercial room for manoeuvre of financial service providers and thus the competitiveness of the Swiss financial centre. State action is based on principles that provide direction in the face of new challenges and the consequential need for adjustment.

## Objectives

Die Rahmenbedingungen für den Finanzplatz Schweiz sollen seine Qualität, Stabilität und Integrität sicherstellen. Sie sind die Pfeiler eines wettbewerbsfähigen Finanzsektors, der seine Leistungen für die Gesamtwirtschaft erbringt und dadurch mithilft, den Wohlstand der Bevölkerung zu erhalten und zu mehren.

### First: quality

The Swiss financial centre stands out for its internationally competitive framework conditions. At the same time, an appropriate legal and institutional environment is a prerequisite for the sector being able to provide high-quality services for domestic and foreign clients.

It is important to have a regulatory and tax environment for the financial sector that ensures competition at the domestic level and preserves market opportunities abroad. It is equally important to have efficient financial market infrastructures, particularly for payment transactions and securities trading, as well as the availability of qualified personnel. However, only the sector itself can create value added and jobs. In this way, the financial sector should be able to optimally satisfy the different needs of the economy and households for high-quality financial services. For the very internationally oriented Swiss financial sector, cross-border business and the maintenance of access to foreign markets are especially important.

### Second: stability

The financial system as a whole must be stable and guarantee the resilience of individual financial institutions, especially systemically important ones. In this respect, macroprudential (system-related) and microprudential (institution-related) supervision complement each other.

A financial system is stable if the financial markets and their participants – banks, insurers, stock exchanges, processing systems, money and forex markets, etc. – fulfil their economically vital functions (e.g. allocation of capital, transformation

of maturities and risks, deposit business and payment transactions) even in the event of shocks or crises. Both systemic and isolated limited shocks in Switzerland or abroad pose a risk to stability. Global and national systemically important institutions have a specific risk profile. A crisis that affects this type of institution or several mid-sized or small institutions could cause a widespread loss of confidence in the financial system. At the same time, adverse developments originating within Switzerland, such as an overheated real estate market, could jeopardise system stability. For this reason, safeguarding financial stability is a key task of financial sector regulation and supervision.

### Third: integrity

Great emphasis is placed on the need to address abuses and violations of rules consistently. Appropriate investor and client protection also help to ensure the functioning of the system and to maintain and strengthen confidence in the financial sector.

The integrity of the financial centre and concern for its reputation should be the top priority for all financial service providers, as they rely on their clients' and business partners' confidence in their competence and conduct. This places high ethical demands on financial intermediaries, and it is primarily their responsibility to protect the sector's good reputation with morally sound conduct. For its part, the government helps to prevent misconduct to the greatest extent possible through effective regulation and consistent supervision. For this, Switzerland bases itself on internationally recognised standards for prudential supervision, protection against abuse of the financial system and the area of taxation.

While the objectives described above complement each other, they may also work against each other and show conflicting goals. Experience in the shaping of regulations shows that a balancing of priorities is necessary. For example, regulations on the prevention of market abuse (integrity) may conflict to a certain degree with the framework conditions for an internationally competitive financial sector (quality of location). Conversely, a low level of regulation can call into question the stability and integrity of the financial centre or even access to foreign markets. The principles of financial market policy described below should provide the necessary direction precisely when such conflicting goals arise.

## Guidelines

The objectives of financial market policy are pursued taking account of general guidelines for state action that apply over the long term. The following three guidelines should provide for direction when designing financial market policy, for example with respect to regulatory projects or international negotiations.<sup>22</sup>

<sup>22</sup> These principles reflect principles that were previously adopted by the authorities and the Federal Council, in particular in relation to the content and process of financial market regulation. See the FDF's "Guidelines for financial market regulation" of 2005, FINMA's "Guidelines for financial market regulation" of 2010 and the Federal Council's report on financial market policy of 19 December 2012.

**First:  
attractiveness as a  
business location**

This principle stresses the commitment to ensuring an attractive financial centre by exploiting the country's scope for manoeuvre while also taking account of the international integration of the financial centre.

The authorities create and maintain the conditions for a competitive and innovative Swiss financial sector. The existing scope for finding national solutions should be exploited consistently. Given the strong international orientation of the financial sector, however, it is in the interests of Switzerland to take account of legal developments in important partner states. Widely recognised international standards are suitable for creating a level playing field internationally and can be used as a benchmark for creating and further developing national rules. Swiss solutions should not go beyond an internationally recognised standard except where this is necessary for systemic importance reasons. Otherwise, the global standard should be complied with and Switzerland should support its effective implementation.

**Second:  
competitive and  
technological  
neutrality**

This principle highlights the intention of avoiding competition-distorting framework conditions also with regard to innovation and the use of new technologies, where particular attention is to be paid to legal certainty for the sector.

When shaping the framework conditions, the authorities take account of how these impact the competitive environment, market structures and market conduct. They strive to implement transparent and comparable competitive conditions for all market participants and avoid creating undesirable incentives. At the same time, the framework conditions are shaped in such a way that they are neutral vis-à-vis different business models and technologies and allow corresponding innovations.

**Third:  
proportionality**

This principle refers to the intention of guaranteeing economic efficiency and proportionality in the selection and use of political instruments, while planning an appropriate level of involvement of the parties concerned.

In their use of resources, the authorities base themselves on the expected costs and benefits of a measure. They have to strike a balance for each of these by applying a sense of proportion, while taking account of the achievement of objectives and the effects on the economy and market participants. The objective of effective and cost-efficient regulation should be achieved using a principle-based regulatory approach and risk-based supervision (that is differentiated accordingly). Differentiated regulation takes into account not only the risks of a business activity, but also the size and complexity of financial service providers. The parties concerned are informed at an early stage and included in the planning and elaboration of a reform project in an appropriate manner.

## Appendix II: Key financial market policy developments since 2010

2010	<ul style="list-style-type: none"><li>– FDF's State Secretariat for International Financial Matters SIF begins work</li><li>– Expert commission presents the too-big-to-fail (TBTF) final report</li><li>– Administrative Assistance Ordinance on Implementation of DTAs in Accordance with OECD Standard comes into force</li></ul>
2011	<ul style="list-style-type: none"><li>– Federal Council adopts dispatch on strengthening financial sector stability (TBTF bill)</li><li>– Switzerland signs withholding tax agreement with Germany and UK</li><li>– Federal Council adopts dispatch on Tax Administrative Assistance Act (TAAA)</li><li>– Federal Council adopts dispatch on amending the Stock Exchange Act (SESTA)</li><li>– Federal Council adopts dispatch on total revision of Insurance Policies Act (IPA)</li><li>– Federal Council adopts dispatch on IMF quota and governance reforms</li></ul>
2012	<ul style="list-style-type: none"><li>– Federal Council adopts revision of Collective Investment Schemes Act (CISA)</li><li>– Federal Council adopts implementation of Basel III capital requirements</li><li>– Switzerland signs withholding tax agreement with Austria</li><li>– Switzerland admits group requests in accordance with OECD standard</li><li>– Federal Council presents extensive due diligence requirements to combat untaxed assets</li><li>– Federal Council presents overview of financial market policy</li></ul>
2013	<ul style="list-style-type: none"><li>– Federal Council adopts dispatch on FATCA Agreement with United States</li><li>– Federal Council acknowledges report by group of experts on regulatory challenges in cross-border asset management</li><li>– Switzerland signs OECD/Council of Europe convention on administrative assistance in tax matters</li><li>– Federal Council adopts dispatch on implementation of revised FATF recommendations</li><li>– Switzerland and United States sign joint statement to resolve tax dispute between banks and United States</li></ul>

- 2014
- Federal Council adopts dispatch on Financial Market Infrastructure Act (FinMIA)
  - Federal Council adopts implementation of Basel III liquidity requirements
  - Switzerland commits to global standard for automatic exchange of financial account information (AEOI)
  - Switzerland signs joint declaration on introduction of AEOI with Australia
  - Switzerland signs agreement on introduction of AEOI with EU
  - Switzerland and EU sign joint statement on business taxation
  - Federal Council adopts negotiation mandates with partner states on introducing AEOI and commits to Global Forum’s new global standard
  - Federal Council acknowledges final report by group of experts on “further development of financial market strategy” and sets up “advisory board for future of Swiss financial centre”

- 2015
- Switzerland is admitted to second phase of peer review by Global Forum
  - Federal Council adopts dispatch on legal basis for AEOI
  - Federal Council adopts dispatch on third series of corporate tax reforms
  - Federal Council adopts dispatch on Financial Services Act (FinSA) and Financial Institutions Act (FinIA)
  - Federal Council adopts dispatch on automatic exchange of information with EU

- 2016
- Financial Market Infrastructure Act (FinMIA) comes into force
  - Revised Anti-Money Laundering Act (AMLA) comes into force
  - Switzerland signs joint declarations on introduction of AEOI with Canada, Guernsey, Japan, Jersey, Iceland, Isle of Man, Norway, Republic of Korea
  - Federal Council brings revised TBTF provisions into force
  - Switzerland completes second phase of Global Forum peer review and is rated as “largely compliant”
  - Switzerland ratifies OECD/Council of Europe convention on administrative assistance in tax matters



