Report of the Board 2018

New Topics for the Future

Review

The trend underway in the previous year was confirmed in the year now under review: the future is more important than the past. Regularisation is over, and the focus now is on strategic positioning. The Board is addressing the question of how to highlight and strengthen the unique selling points of Switzerland as a business location so that banks can benefit from an improved starting position. It is important that the Association can participate in the process of developing attractive framework conditions. Against this background, new issues are shifting into the centre of attention.

Cyber Resilience

Already in 2016 the Association's Board began to tackle the issue of how foreign banks can strengthen their resilience with regard to cyber attacks. Unfortunately, it remains the case that MELANI, the Reporting and Analysis Centre for Information Assurance, is accessible only to Swiss systemically-relevant institutions. The Board conducted extensive fact-finding and discussed possible alliances with numerous institutions. Cyber resilience is only possible if trusted partners openly exchange information. The end result was that the SIX Group decided to create a Cyber Resilience Hub that will offer financial institutions a confidential platform on which they can exchange information and coordinate countermeasures. At AFBS Roundtables the foreign banks examined the project and gave their comments. SIX took into account numerous suggestions and activated the Hub in the autumn of 2018. The Hub compiles information on cyber incidents on a worldwide basis; SIX augments the value of these reports with its own analysis and then passes them back to participants. As an independent financial infrastructure provider SIX can guarantee complete confidentiality; and as a non-profit orientated institution it can offer this service on a revenue-neutral basis.

During the year under review the Federal Council took some important decisions to strengthen the resilience of Switzerland as a financial and business centre in the area of cyber security. It wants to set up a Cyber Competence Centre and make resilience-enhancing services available to a wider circle of companies and institutions. It became clear at AFBS Roundtables that cooperation and information exchange are indispen-sable if the protection of Switzerland as a business location is to be ensured. Attackers are very quick to adapt to developments in technology; if security is to be guaranteed, the defence must be even quicker.

In addition, informal cooperation with the Public Prosecutor and the crossborder exchange of information are indispensable to a successful battle against cybercrime. The foreign banks are interested in contributing to the strengthening of the resilience of the Swiss financial centre. Thanks to their global networks they have valuable resources at their disposal, and the crossborder exchange of information on a group-wide basis should be possible if it can promote the development of counter-measures to fight cybercrime.

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Crossborder Business

Foreign banks in Switzerland remain focused on doing business with an international clientele. The foreign banks not only provide services to clients who for the most part are domiciled abroad, but their investment activities are predominantly internationally oriented. The same holds true for corporate clients for whom the foreign banks, thanks to their global networks, facilitate access to world markets. International banking groups are increasingly tending to bring activities such as KYC clarification, transaction moni-toring and risk profiling together in regional compe-tence centres which have crossborder responsibility for several markets. Similarly, services for private and institutional clients, such as investment structuring or project finance, are also being offered from regional competence centres. This has the advantage of enabling groups to implement decisions consistently throughout their group and to make use of synergies. However, it also means that client data is transferred abroad and that it can be accessed from abroad. In Switzerland that can in principle only take place with the express consent of the client in question and is therefore connected with considerable cost.

The Association's Board had extensive discussions on this issue during the year under review and also exchanged views with the FINMA. All parties agreed that the protection of privacy - as laid down in Swiss law - is an important aspect of Swiss banking and one which is appreciated by international clients. Nevertheless, it was felt that it should be possible, in agreement with the client, for certain data to be stored and processed in regional competence centres outside Switzerland.

The above is intended to strengthen resilience, to ensure the consistent application of rules and regulations and to reduce cost pressures. While keeping in mind the reputational aspect, it should not be forgotten that Switzerland is with time becoming a more costly location from which to do business and that globally-active companies must have good reasons to continue to employ staff here. Regulatory conditions alone do not suffice. Unique selling points are indispensable and Switzerland must consider and give thought to the strengths which give it the edge over its competitors.

Digitalisation

In connection with the above, the Swiss Bankers' Association's Cloud Guidelines are a welcome piece of self-regulation. The Guidelines explain the conditions under which banks may outsource data to cloud services and how access to this data is to be controlled. The Guidelines allow banks to outsource data to the cloud as long as they take adequate measures to safeguard bank-client confidentiality. For example, the Guidelines mention that banks can take technical measures to prevent client-identifying data from appearing as such. The Association's Board supported the development of these guidelines and welcomes the fact that the wording also takes into account the specific situation of foreign-controlled institutions in Switzerland and makes it possible for them to use the infrastructure - i.e. the computing capacity - of their parent company abroad.

In the year under review the Board also looked into the issue of new technologies, such as BlochChain, and their impact on traditional banking business in Switzerland. The Board met with representatives of FinTech companies and discussed the opportunities which such technologies could also bring to traditional private wealth management. Private banking clients welcome the fact that, thanks to increasingly powerful computers, their advisor could cater to their specific requirements in a tightly-focused manner and put together an investment portfolio that takes into account numerous diverse factors. However, such "number crunchers" are expensive and consequently not accessible to everyone. Internationally-active banks willingly focus their investment in such infrastructure in crossborder data processing centres which their subsidiaries in Switzerland can access. The Cloud

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Guidelines bring long-awaited clarification to questions which are of importance to the Swiss financial centre.

Corporate & Investment Banking

International corporations constitute a special client segment. Many of them have either their corporate headquarters or a regional head office in Switzerland. This has long been the case, and banks in Switzerland cater to the needs and requirements of this client segment. The foreign banks in Switzerland are in a privileged position here, and they have been consciously making use of this position for some years now. In contrast to Swiss banks, the foreign banks - thanks to their global networks - can support these international corporations in their expansion worldwide in the truest sense of the word, and that makes life for these corporations considerably easier. The Chief Financial Officer at corporate headquarters can contact the company's main bank directly, and this bank in turn can safeguard the execution of any business using its global network. Everything from beginning to end is done "in house", thus avoiding any detours via a correspondent bank. This is true not only for business concerns with branches abroad but also for asset managers who invest in diverse foreign markets and need local depositaries. Thanks to the diversity of foreign banks here, most companies find a suitable partner. However, should globalisation proceed apace then the Swiss financial centre will be required to take in more banks from emerging economies because only these banks can ensure direct contact in growth markets without a detour via London or the US and all the well-known challenges the latter paths brings with them.

The contribution to added value in Switzerland should not be underestimated, because if the contacts outlined above could not be made here, then Swiss companies would see themselves forced to establish competence centres in foreign international financial centres and to relocate jobs.

Small Banks

In the past year the FINMA, through its Small Bank Symposium, launched a process designed to bring a degree of proportionality to banking regulation and supervision in Switzerland. The regulatory and supervisory process is due to be adapted to take into account the varying size of diverse institutions. A "one-size-fits-all" regulatory regime is in fact only partially appropriate for a financial centre which is supposed to be diverse and which allows even small institutions the possibility of evolving. Our Association's Board welcomes this approach. Most of the AFBS members are affected by the revisions; many of them are also participating in the pilot project and supported the revision of FINMA's Circulars on Outsourcing, Corporate Governance and Operational Risk. While certain provisions governing the periodical revision of internal guidelines met with great interest, the extension of the intervals of supervisory activities and the provisions governing the calculation and submission of key figures are of limited relevance to the foreign banks. Their parent companies often re-quire annual reporting so they can ensure compliance with in-house provisions on risk monitoring. None-theless, the foreign banks are interested in seeing the small banks' regime remaining in place and that, in the case of forthcoming regulatory revisions in particular, the principle of proportionality is taken into consi-deration. It would also make things easier for those institutions which belong to an international group if fewer adaptations to the existing regime could serve as a model for moderate regulatory work in the future.

In this regard it is particularly encouraging that the FINMA decided to retain the Panel of Experts on Small Banks as well as the very successful and much-appreciated Small Bank Symposium. The exchange of views - even on an informal basis - between supervised institutions and the authorities is to be welcomed as it helps to address sensitive issues in advance and to lead to rapid and universally-acceptable targeted solutions.

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Market Access: Marking Time Again This Year

The issue of market access for banks in Switzerland - no matter whether foreign- or Swiss-controlled - remains a hot topic. Bilateral relations with the EU are characterised by the marking of time and the EU expects Switzerland to make the next move by adopting the Framework Agreement. This would clarify bilateral relations and could provide a platform on which, where appropriate, questions such as the crossborder provision of financial services could also be discussed.

However, when one reads the MiFID II Directive and looks at how it is being implemented in neighbouring countries, it is easy to see that market access in this framework is quite illusory. Italy, for example, assumes that even cooperation with local intermediaries ranks as on-site activity and that the foreign institution is therefore obliged to apply for the local permits and licenses.

The situation is similar with regard to the negotiation of country-by-country bilateral agreements. One such agreement exists between Switzerland and Germany, and it was already revised to conform with MiFID II. Since then, one Swiss bank has gone through the whole process and was granted an exemption (Freistellung). Other cases are still pending. Within the EU, however, voices are being raised, saying that the agreement is not compatible with the obligations that an EU member country enters into under MiFID.

Relations between Switzerland and the United Kingdom could provide an interesting precedent. A partnership between the two largest financial centres in Europe could lay the foundation for an international alliance on financial issues that would jointly represent their interests. But such a development is still a long way off, above all because the United Kingdom first has to clarify its relations with the EU.

There remains the possibility of institution-level authorisation: each institution would select its target markets, make a request for market access and apply for the necessary permits. This idea of institution-level exemption is for the moment in the heads of just a few progressive thinkers and would have to be further elaborated before a negotiating mandate could emerge. At the same time, it should be borne in mind that without a framework agreement with the EU there would be hardly any chance of such negotiations taking place.

Association Matters

The Association's work is hallmarked by continuity. The CEO Luncheons, instituted a few years ago, remain an important forum for an exchange of views between member institutions and the Association's Board and are thus a valuable instrument for the development of the Association's work. The annual meetings with representatives of the Swiss National Bank and the FINMA provide a valuable platform on which to discuss the position of the foreign banks in Switzerland. Issues raised in this forum were also at the centre of discussions with the State Secretariat for International Finance, whereby the focus here was on target markets for Swiss wealth management.

This year saw another meeting with the Board of Directors and Executive Board of the SIX Group. In addition to strategic issues concerning the SIX Group, cybersecurity was also on the agenda. This topic is of major concern not only for banks but also for SIX in its capacity as a financial infrastructure provider, as outlined earlier in this report.

The Association's Secretariat again organised some fifty events which dealt with regulatory questions, and informed members about topical issues via regularly-published newsletters. In addition, meetings were held regularly in the eastern part of Switzerland and in Lugano at which the Secretariat gave briefings on pending issues and held discussions with member institutions. The CRS/FATCA Implementation Group in Geneva offers financial

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institutions there - including Swiss banks as well as trusts and asset managers - the opportunity to exchange experience.

The following members are stepping down from the Association's Board: Franco Morra, HSBC Private Bank (Suisse) SA; Geoffroy Bazin, BNP Paribas (Suisse) SA; Kristine Braden, Citibank (Switzerland) SA; Peter Hinder, Deutsche Bank (Suisse) SA; and also Yves Thieffry, Société Générale Private Banking (Suisse) SA. The Board extends its sincere thanks to these outgoing members for their commitment and support of the Association's work. In the year under review the following members were co-opted to the Board: Monique Vialatou, BNP Paribas (Suisse) SA; Peter Gabriele, J.P. Morgan (Suisse) SA; and Alfonso Gómez, BBVA (Suiza) SA; they will be proposed for election at the Annual General Meeting. The Board has nominated Heinrich Henckel, LGT Bank (Schweiz) AG, as its Chairman. The appointment of a second Vice-Chairman is currently underway.

There are only a few changes to record with regard to the Association's representation on the Swiss Bankers Association (SBA)'s Commissions and Steering Committees: Reto Somalvico, Bank J. Safra Sarasin AG, joins the SBA's Expert Commission on Information Security and Cyber Defence; and Jan Amrit Poser, Bank J. Safra Sarasin AG, will represent the AFBS in the SBA's Working Group on Sustainability.

Finally, we would like to extend our sincere thanks to everyone who has supported our work and promoted the interests of the foreign banks in Switzerland and our Association.

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