# Report of the Board 2017

## Ongoing cautious optimism

## Overview

The future of the Swiss financial centre remained - and remains - the focal point of interest of the Association and its Board. The success of our financial centre, and with it the success of the foreign banks established here, depends decisively on the global development of crossborder managed wealth, as well as on the state of regional competition-. Promotional activities on behalf of the Swiss financial centre must concentrate on those markets with high growth potential. In its discussions with representatives of the Boston Consulting Group, the Board identified those markets currently most significant for Swiss private banking as well as those markets set for growth in the future. It is expected that the overall crossborder wealth will increase by 4-5% annually in the near future. With its 25% market share in this business segment, Switzerland remains the most important international financial centre. Most of the managed wealth booked in Switzerland comes from clients in EU member countries. However, these “old” markets are expected to grow less strongly over the next years. Today, already nine of the 15 countries of most importance for Swiss private banking are outside the EU. The dynamics of the “new” markets are working in favour of Hong Kong and Singapore and, in the medium-term, they will challenge Switzerland for top position.

Our Association has discussed these findings with the State Secretariat for International Financial Matters (SIF). Switzerland must continue the promotional activities it has been conducting to date while focusing on the “new” countries set for strong growth. Nevertheless, given the wealth booked in Switzerland from European clients, crossborder financial services business with the EU continues to be of great significance.

In contrast to previous years, sector consolidation and the decrease in the number of foreign banks in Switzerland were no longer dominating topics for the Association and its Board. That said, the number of foreign banks in Switzerland did continue to decrease - from 107 at year-end 2016 to 99 at year-end 2017. Nine market exits were recorded, and there was one new market entrant. At year-end 2017, approximately 40% of the 254 banks in Switzerland were foreign banks.

## No progress on market access

In 2017, Switzerland did not get any closer to achieving the goal of the banks to provide crossborder financial services for “qualified investors” or “sophisticated clients” in the EU within the framework of the current MiFID II rules. The EU does not have a third-country regime in this area, and with regard to the provision of financial services, certain EU member states such as Italy, France and Spain are now starting to require a physical presence.

Talks on improving the export of financial services to the EU market were shelved following the referendum on restricting the free movement of persons. In point of fact, the free movement of persons was never restricted with

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regard to EU citizens and in the meantime an EU-compatible method of implementing the result of the referendum was found. Nevertheless, talks on the freedom to provide financial services came to a complete standstill. As it had already done in the past, the EU explained that this was due to the lack of an institutional framework agreement. At the end of last year, the EU Commission even refused a general recognition of the equivalence of Swiss legislation on financial market infrastructure to EU standards; it restricted the recognition to a period of one year and made any extension dependent on an agreement on institutional questions.

Switzerland's Federal Council and Federal Administration are working hard to find a solution with the EU. This should ensure recognition of the equivalence of Swiss financial market regulation which, from the point of view of content, is actually not in dispute. Equivalence means neither a less restricted nor an unrestricted access to the EU market. A conference in Geneva organised by our Association provided an opportunity to do some stocktaking. Speakers from the EU, the Swiss Federal Administration as well as observers of the financial sector were unanimous: no solution will be found to this conundrum without a special agreement or recognition of the freedom to provide services. Switzerland and the EU, however, remain poles apart.

## From "one-size-fits-all" to differentiated regulation

Also on the Association's agenda were the various initiatives concerning the further development of Switzerland's financial market regulation. The issue most salient in political and public discussion was the introduction of the automatic exchange of information. From 2018 respectively 2019, Switzerland will exchange tax-relevant information with 91 countries - or at least with those countries that fulfil the preconditions necessary for the relevant agreements to come into force. Agreements with other countries can be expected to follow in the years to come. Just as important for the Swiss financial centre were the adaptations to the Financial Market Infrastructure Act following changes in the EU's regulatory framework; the revisions to Switzerland's anti-money laundering regulation following the results of the OECD Global Forum's Peer Review; and revisions to prudential supervision in the context of further developments in the Basel III standards.

While another round of changes to Switzerland's prudential supervision was underway, small- and medium-sized banks once again questioned the application of provisions designed for international banks to banks which are systemically irrelevant. A symposium for small- and medium-sized banks organised by the Swiss Financial Market Supervisory Authority (FINMA) launched a discussion about differentiated regulation and proportionality of regulation. From the point of view of stability, small- and medium-sized banks pose no systemic risk; in the case of bankruptcy, moreover, such a bank can be wound up quickly and without harming depositors. Following this symposium, our Association held discussions with interested banks and put forward proposals as to how the efficiency of the regulatory framework could be enhanced. It is not primarily a question of reducing the quantity of regulation, but rather of easing regulation above all in areas such as reporting, financial disclosure and auditing. The Association's proposals in these areas influenced its contribution to the consultation process about the revision of FINMA's Circular on Auditing.

The banking sector picked up the ball. The Swiss Bankers' Association invited all banking groups to formulate their ideas about the restructuring of the financial regulatory framework. The proportionality of regulation, however, should not just release small- and medium-sized banks from unnecessary regulatory burdens. A risk-adjusted regulatory system can also make things less complicated for large institutions.

## With confidence into 2018

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Following the launching of the Fintech (financial technology) initiative last year, cybersecurity has turned out to be the most pressing concern and the Swiss financial centre is not in a leading position with regard to cyber resilience. A Working Group established by the Board has been exploring ways to increase the level of cybersecurity and keep banks informed about ongoing developments. The Board and the SIX Group held detailed discussions as to whether a supra-institutional solution could be possible. The subject was subsequently taken up with FINMA, the Reporting and Analysis Centre for Information Assurance MELANI, the State Secretariat for International Financial Matters and the Zurich Public Prosecutor's Office. The Association will continue its efforts in this field during the current year.

The discussion about Fintech also gave rise to a greater preoccupation with Initial Coin Offerings (ICOs) and the introduction of cryptocurrencies. For the moment banks are keeping their distance in this area because of the lack of corresponding anti-money laundering and "know-your-customer" rules. Should the regulatory framework change, virtual currencies as well as the underlying technology will also become interesting for the banks.

Three further legislative projects will occupy the banks in the current year. Firstly, the long-discussed Financial Services Act and the Financial Institutions Act are due to be passed by Parliament this year. They will enter into force in 2019 at the earliest, but the preparatory work must be taken in hand. The implementation measures needed will be less burdensome for those banks which have already oriented themselves according to the EU's MiFID II than for those banks focused only on the domestic market or institutions with clients outside the EU. Secondly, Switzerland's Data Protection Law will enter the parliamentary process. It is still an open question as to whether the Swiss Parliament will support the intended alignment of Swiss legislation with the EU's General Data Protection Regulation. Thirdly, depositor protection will be subject to a total revision. The present system based on purely ex-post financing will be replaced. In a new move, banks will be required to deposit securities which can be very rapidly liquidated should the need arise. They must ensure a disbursement in seven days. Likewise there will be new rules governing client information.

In the current year, the future of Switzerland's withholding tax will also be up for discussion. The withdrawal of the "Matter Initiative" which aimed to anchor bank client confidentiality in Switzerland's Federal Constitution gave rise to the question as to whether Switzerland should abolish its withholding tax in favour of a domestic automatic exchange of information, or whether it should maintain the status quo and thoroughly overhaul the withholding tax system.

The withholding tax revision prompts many banks to invest fiduciary deposits abroad, and this in turn means a loss of capital for the Swiss economy. The Association has proposed the abolition of the withholding tax. The banks could then invest the capital in Switzerland, thus strengthening the financial centre. This proposal will be pursued and our Association will also continue to take an active part in the discussion about the future of the withholding tax circumstances.

## Association activities

Continuity is the hallmark of the Association's work. The CEO-Luncheons that were introduced a few years ago are being continued. They provide an important platform for the exchange of ideas amongst the foreign banks and they also serve as a gauge for the Board. The situation of the foreign banks and also the question of market access were the subjects of intensive discussions at the annual meetings with representatives of the Swiss National Bank as well as with representatives of the FINMA. Market access was also high on the agenda of talks with the head of the SIF,

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State Secretary Jörg Gasser, although the focus of these discussions was on target markets for Swiss wealth management.

The year under review also saw another meeting with the Board of Directors and Executive Board of the SIX Group. In addition to strategic issues of the SIX Group, the topic of cybersecurity was also on the agenda. This topic is of the greatest importance for banks as well as for the SIX Group as a service provider.

In addition, the Association's Secretariat again organised some fifty events dealing with regulatory matters and regularly published information sheets covering regulatory questions. Events are also regularly held in the eastern part of Switzerland and in Lugano at which the Secretariat gives briefings on upcoming issues and has discussions with market participants. In Geneva, the FATCA/CRS-Implementation Group provides financial institutions there - including Swiss banks as well as trusts and asset managers – with the opportunity to exchange experiences.

André Lagger, CEO, LGT Financial Services AG, Vaduz, was elected a member of the Swiss Bankers' Association's (SBA) newly-founded Expert Committee on Digitalisation. There are no changes to report in the Association's representation on the SBA's existing Commissions and Steering Committees - another indication that the foreign banks as a group are once again sailing in calmer waters.

Pierre-Alain Bracher, Vice Chairman of the Board of Directors, Bank J. Safra Sarasin AG, Basel, and Benoît Dumont, Chairman of the Board of Directors, J.P. Morgan (Suisse) SA, Geneva, are stepping down from the Board of our Association. The Board extends its sincere thanks to both members for their cooperation and support of the Association's work. Markus Affolter, Group General Council, Bank J. Safra Sarasin AG, Basel, has been coopted as a new member of our Association's Board. He will be proposed for election at our Association's AGM. Ms. Natalie Recknagel is stepping down from her position as one of the Association's auditors as she is leaving her bank. The Board has nominated Guy Teulings, Habib Bank AG, Zurich, as its third auditor and he, too, will be put up for election at the AGM.

Finally, we would like to take this opportunity to thank everyone who has supported our work and promoted the interests of the foreign banks and our Association for their cooperation and commitment.

March 2018

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