Report of the Board 2022

After the pandemic: war and inflation

In April 2022 Switzerland's Federal Council lifted the remaining measures designed to contain the COVID-19 pandemic. The Association's Board was therefore pleased to celebrate the fiftieth anniversary of the Association on a restrictions-free warm summer's evening in central Zurich. However, war in the Ukraine was already raging and as time passed the world realised there would be no swift end to the conflict. The sanctions aimed at Russia are being constantly adapted and there are multifarious effects on world trade as well as on the Swiss financial centre. The much-feared energy shortages over the winter did not materialise. However, the financial markets have had to adapt to new framework conditions. The rapid rise in interest rates and spiralling inflation in particular present banks with new challenges. Three topics were at the core of attention of the foreign banks: regulatory compliance, digital innovation and environmental protection.

World politics

The Swiss financial centre, just like the Swiss economy in general, is highly outward-oriented and internationally interconnected. On the one hand that represents a strength, but on the other hand it also presents a challenge. Given the current situation it is important for Switzerland to strive for and ensure good cooperation with its most important economic partners in order to avoid a situation where internationally active companies and their customers are exposed follow a plethora of different regulations.

> *The AFBS is very active updating its members on all recent and upcoming regulatory changes. Several channels are proposed by the AFBS to inform its members; regular articles released, webinars organized with experts, round tables with the participation of other members to share best practices. All this support is helping the banks in a concrete manner. Ping Xiao, CEO, Bank of China Limited, Geneva Branch.*

The implementation of sanctions presented the Swiss financial centre with considerable challenges and many questions concerning application remained open. In particular, there was confusion in many areas concerning commodity trade financing and this often necessitated lengthy quests for clarification. Switzerland's State Secretariat for Economic Affairs (SECO) was required to rapidly build up new competences and maintain a dialogue with various sectors of the economy. The strong international interconnectedness of the Swiss economy added a further layer of complexity.

The Association activated the usual channels for liaison amongst its members and was conscious of its role as intermediary. Thanks to its accustomed use of digital communications channels the Association was able to rapidly offer forums in which members in every part of Switzerland could communicate and exchange views via video conferencing. They discussed the implementation of the Federal Sanctions Ordinance and drafted questions and

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commentaries addressed to SECO.

Switzerland's largely unconditional participation in implementing the internationally coordinated sanctions was a novelty for the neutral country. Because of the high degree of Switzerland's international interconnectedness, any alternative strategy would hardly have been possible for political and economic reasons. However, this also had an impact on Switzerland's image abroad, as did the statement from the Federal Council regarding the confiscation of frozen assets to finance Ukraine's reconstruction. The principles upheld governing the protection of private property and liberal values, for which Switzerland is appreciated and respected by the outside world, were abruptly called into question. In the medium-term Switzerland must review its policy of neutrality in the new geopolitical environment and adapt it if necessary. The strict definition of neutrality, as it has been cultivated in the past, is in all probability difficult to maintain today.

Digitalisation

Since the pandemic there has been no let-up in the rapid advance of digitalisation in the financial sector. In Switzerland, the frame conditions appear to be suited to its financial services industry: legislation is pragmatic and leaves room for innovation, and the Swiss Financial Market Supervisory Authority (FINMA) is competent, approachable and encourages new projects. The Association had a valuable exchange of views with FINMA on the subject of digitalisation at the foreign banks and noted the high value which FINMA attaches to innovation. This has caught the attention of internationally active banking groups, several of which are establishing their FinTech competence centres here in Switzerland.

At a conference and two C-meetings Association members were briefed by the CEO of SIX Digital Exchange about the new, completely integrated value chain for the issuing, trading and custody of digital assets. By international comparison the favourable framework conditions place Switzerland in a good position. Two further C-meetings were held on the subject of digitalisation projects concerning central bank money and the trading of digital securities, projects which are being promoted by the SNB and the BIS Innovation Hub and where SIX also played an important role.

Progress in other areas of digitalisation in Switzerland is somewhat slower. Switzerland still does not have a system of digital identity for its citizens, and it is also behind in the recognition of such identities issued abroad. Given its position as an international financial centre, Switzerland should avoid falling behind in these areas – digital identity is going to become an international standard.

> *Als Schweizer Einheit einer führenden Bank in Luxemburg sind wir stolz darauf, Teil des Schweizer Bankenplatzes zu sein. AFBS ist für uns eine sehr wirkungsvolle Plattform, um den Austausch mit anderen ausländischen Banken zu fördern und Kontakte im Schweizer Finanzsektor zu knüpfen und zu vertiefen. Hans-Peter Borgh, Banque Internationale à Luxembourg (Suisse) SA.*

An increasing number of internationally active banking groups are storing and processing their data in the Cloud. The Swiss branches of international financial institutions are also being required to move their data into the Cloud. This simplifies group-wide data management, brings economies of scale, and simplifies processes. In addition, data protection is better than under local safekeeping, at least from a technical point of view. The question of to what extent a foreign bank in Switzerland may store its data in the Cloud of its parent institution and how it should

inform its clients was the subject of numerous Association events. The Association's Board as well as specialist groups held discussions with experts on the subject. The Federal Data Protection Commissioner is aware that global business groups also manage their client data globally. In talks with member banks' Legal Counsels he emphasised that the bank in Switzerland must know where the data is kept and who has access to it. A lawyer discussed with the Board the decision-making process concerning the transfer of data to the Cloud.

The Swiss financial centre recorded substantial progress in the area of cyber resilience. April 2022 saw the establishment of the Swiss Financial Sector Cyber Security Centre FS-CSC. As of April 2023 it has nearly one hundred members, including 25 foreign banks. The network helps the financial centre to strengthen its resistance against attacks in the digital world by promoting exchanges of information and cooperation in the field of defensive measures. The AFBS is involved as a founding member. On several occasions the Federal Cyber Security Delegate briefed the Board and also the Association’s members on the work of the FS-CSC and the significance of prevention as well as the cooperation of the financial sector in the area of cyber security.

Sustainability

The implementation of sustainability targets presents banks with a significant challenge. They face the task of accompanying their clients on the way without restricting their freedom of choice.

During the year under review the Swiss financial centre progressed from theory to practice. The Guidelines of the Swiss Bankers' Association and the Asset Management Association Switzerland AMAS were approved and are now to be implemented by the financial institutions. The Swiss approach of self-regulation avoids the Swiss Finish and makes it easier for firms to move around in the complex world of differing international standards. Many foreign banks in Switzerland partially apply the EU standards while at the same time they have to observe their respective group’s own internal rules.

For a long time the Federal Council backed the horse of self-regulation and exercised restraint. However, shortly after the publication of the above-mentioned Guidelines, the Federal Council came forward with its own initiatives and is considering regulation aimed in particular at preventing "greenwashing" and at promoting impact investing among retail clients. The Federal Government chairs working groups in which the financial sector is also represented. It is important that any state regulation be aligned with the self-regulation and that compatibility with international standards remains safeguarded.

> *La dinamicità e il dialogo sono due principi che caratterizzano la strategia di Banca Credinvest e che ritrovo nell’essenza dell’AFBS. Sono lieto di far parte dell’associazione in quanto gli incontri proposti sono sempre utili e facilitano lo scambio di idee con i peers su temi attuali nel mondo finanziario. Alex Oberholzer, CEO, Banca Credinvest SA*

Regulation alone does not bring about sustainable business activities. It requires the coordinated action of a multitude of different players. For this reason the Association's Board has regular discussions with the promotors of the Building Bridges Summit in Geneva. The latter brings together representatives from governments, international organisations and the worlds of finance and industry with a view to jointly shaping the future. The AFBS believes it is important that the focus of the Summit includes not just the private asset management side of banking but other banking areas, in particular corporate banking. The Association's Board therefore promotes

other projects, for example the use of the measuring frame employed by private banks and asset management banks which allows a financial institution to assess its progress against specific reference values. Several foreign banks are participating and thus have at their disposal another method that shows them and their client achievement of environmental, social and governance (ESG) targets measured against a common set of standards.

The big challenge with implementing any ESG strategy is to find the most suitable frame of reference and then to employ it transparently and consistently. Clients should be informed about implementation and they should also be told when possibilities are limited. Legal Counsels of member banks discussed these questions with an advisor and came to the conclusion that a bank should select a frame of reference based on its own considerations and then apply it consistently. This can help reduce the risk of being accused of greenwashing.

Ongoing Business

In addition to the three core issues which are of great importance to the financial centre as a whole, the Association also dealt with various regulatory and tax issues during the year under review. It once again made efforts to ensure that the Swiss implementation of the **Basel III**-Standards is internationally compatible and does not impair the competitiveness of the Swiss financial centre. For example, the liquidity coverage required for commercial transactions should not be unnecessarily onerous; for short-term loans in particular the exemptions should be the same as in the EU. January 2023 saw the publication of FINMA's revised Circular **Operational Risks** and the banks are now working on its implementation. The challenge lies in the scope for interpretation offered by the principles-based text. Member banks meeting in AFBS Groups are together seeking ways to implement it. Member banks are also following the progress being made with the introduction of the **OECD minimum tax rate**. As this is a global project, guidance from the parent company will determine the application by its respective Swiss branch. The adaptations at the Swiss level, which every bank must make itself, should not be underestimated. A harmonised minimum tax rate will mean that the decision to maintain a branch will not be determined just by the tax questions, but also by other locational advantages, of which Switzerland has many. Since the beginning of the pandemic, and recently again very intensively, the Money Laundering Reporting Office Switzerland (MROS) has been working on the introduction of a **Financial Information Sharing Partnership** (FISP). It aims at offering financial centre participants and the authorities a platform on which they can exchange information about behaviour typologies and warn each other of existing dangers. The foreign banks are willing participants as many of them have experience of using such platforms in other financial centres. The foreign banks are also at one with Swiss banks with regards to finding a good and efficient solution to the issue of a register of **Beneficial Ownership for Legal Persons** required by the FATF. A register should list the true beneficial owners so that identification can be simplified and transparency increased. The aftermath of the COVID-19 pandemic is above all reflected in changes in the work environment. At the beginning, **Work from Home** was on everyone's lips, but is now being handled in very different ways by individual financial institutions. There is still no definite regulation for cross-border workers, and it was only with France that a partial solution could be found. During the period under review, foreign banks which offer **traineeships** were engaged in implementing the reforms in the Commercial Apprenticeship in Banking programme for apprenticeships starting post-summer 2023.

Association Activities and Particulars

The AFBS was able to hold its 50th Ordinary General Assembly in the traditional format of an in-person meeting. The event, which took place on a perfect summer's evening in the gardens of the National Museum in Zurich, was

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attended by more than 180 representatives from member institutions and guests, who joined in celebrating the Association's jubilee. Daniela Stoffel, State Secretary for International Finance, gave an opening speech which paved the way for a panel discussion on the future of private wealth management in Switzerland. The discussion focused on the differences between the most important international financial centres and weighed up their respective prospects for the future. The foundations were thereby laid for lively follow-up discussions. At the same time the Association released a video covering its history. It can be viewed on the Association's website.

The Association's new website has been online since January 2022 and is constantly adapted if and when necessary. The simplified operation has led to an increase in usage and offers members an important channel for information and exchanges. The website is primarily a source of information for members who have access to the closed area: www.afbs.ch.

The Association's Secretariat keeps member institutions informed about various current developments via the website and now also again at face-to-face events. During 2022 the Association organised some 80 events. Lectures continue to take place via video-conferencing as this simplifies participation and also allows colleagues from group companies abroad to take part. Meanwhile the Association can again offer face-to-face Roundtables in Zurich, Geneva and Lugano at which members can exchange views. The quality of discussion is much better than over video and the value for individual participants is correspondingly greater.

In a new development the Association was able to organise several C-Meetings. They are a type of Roundtable where a small group of C-level executives can exchange views with representatives of key financial centre partners. They deal with strategic questions about the future of the Swiss financial centre, keep the foreign banks informed about developments and give them the opportunity to present their issues and concerns to the relevant bodies. During the year under review the Association organised such meetings with the CEO of SIX Digital Exchange, with the Swiss National Bank on the subject of digital assets, and with the AFBS's new President.

In September 2022 the Association's Board had a meeting with the State Secretariat for International Finance (SIF) to discuss issues concerning market access. No solution has been found to this perennial problem, and negotiations have ground to a halt – especially since the Federal Council suspended negotiations about the framework agreement with the EU. From the banks' point of view the current situation is not sustainable in the long term, because no changes to the existing treaties does not mean that nothing will change, but that Switzerland's position will get worse. The ongoing decrease in the banks' contribution to Switzerland's GDP is a clear sign of this.

In October a discussion was held with FINMA. FINMA does not consider climate change to be a new risk, but rather a new dimension to existing risks and expects banks to take account of this. FINMA is keen to understand how banks are getting on with digitalisation, and here also FINMA is following the principle of "same business, same rules".

In March 2023 a delegation from the Board held a meeting with the Governing Board of the Swiss National Bank. The meeting took place just a few days after the announcement of the takeover of Credit Suisse by UBS, and the delegation informed the SNB about the reaction and many questions which the transaction had given rise to abroad. Even though Switzerland has been affected less than other countries by inflation and rising interest rates, the SNB sees greater challenges in the aftermath of price increases and the loss of momentum in the real estate market.

The 50th Ordinary General Assembly held on 14 June 2022 elected the following as new members of the Board:

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Marco Pagliara, Deutsche Bank (Suisse) SA; Marni McManus, Citibank (Switzerland) SA; Enna Pariset, BNP Paribas (Suisse) SA. It confirmed the mandates of Alex Classen, HSBC Private Bank (Suisse) SA; Alfonso Gomez, BBVA (Suiza) SA; Peter Gabriele, J.P. Morgan (Suisse) SA; Anne Marion-Bouchacourt, Société Générale Switzerland. It further elected Ivan Mattei, Banca Zarattini & Co SA, as the new auditor and successor to Gabriele Domenighetti, Banca del Sempione SA who was thanked for his work as the Association's auditor.

In September 2022 the Board recorded the resignation of Alex Classen and in January 2023 that of Heinrich Henckel. In January 2023 Adrian Nösberger took over as the Association's Chairman, while Anne Marion-Bouchacourt and Alfonso Gomez officiate as new Vice-Chairmen. Gabriel Castello, HSBC Private Bank (Suisse) SA, and Laurent Gagnebin, Rothschild & Co Bank AG, were co-opted as new members of the Board. Gabriel Castello joins the Board of Directors of the Swiss Bankers' Association (SBA), next to Adrian Nösberger and Anne Marion-Bouchacourt, and Laurent Gagnebin is the AFBS representative on the SBA Steering Committee Private Banking.

Nick Bossart is stepping down from the SBA Steering Committee Capital Markets, and is replaced by Reinout Boettcher, also of J.P.Morgan Securities plc, London, Zurich Branch. Laurence Luyet-Slappnig, BNP Paribas (Suisse) SA, is the Association's new representative to esisuisse, the Depositor Insurance Scheme. The Association's new representative in the SBA Working Group CDB Claudia Gurtner, Deutsche Bank (Schweiz) AG, who takes over from Christian Zuber. Jacques Luyet, BNP Paribas (Suisse) SA, and Stéphane Boyer, HSBC Private Bank (Suisse) SA, are the Association's representatives in the SBA's newly created Working Group on double taxation treaties. Jean-Marc Poirier, CA Indosuez (Suisse) SA, takes over from Jean-François Deroche as the Association's representative on the Board of the Geneva Financial Centre (Fondation Genève Place Financière). Isabelle Monestes, HSBC Private Bank (Suisse) SA will represent the Association in the working group of MROS preparing the Financial Information Sharing Platform.

A current list of mandates and representatives can be found onwww.afbs.ch \ About Us.

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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.

The Board would also like to express its thanks to the Association's Secretariat for its ongoing work in information and coordination which ensures the efficient conduct of the Association's mission.

Zürich, May 2023

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