Report of the Board 2016

The Beginning of the Future

Overview

In 2016 the Association focused its attention on future-oriented issues. The project concerning the certification of client advisors as well as the project on promotional activities for the Swiss financial centre both received new and important impulses and will be pursued in the current year. In addition, the Board has placed the topic of digitalisation and FinTech (Financial Technology) on its agenda and above all wants to involve itself in the regulatory aspects.

The regulatory environment has also changed. Switzerland wants to remain a leading financial centre with regard to the provision of crossborder financial services and, with this aim in mind, has adopted numerous international and regional standards into its legislation. Examples of this include the latest amendments to the Basel III provisions on capital and liquidity requirements; the FATF and Global Forum standards to combat money laundering; various agreements on the automatic exchange of information; the USA's latest demands concerning its Qualified Intermediary (QI) system; and the provisions stemming from the EU's Directives regulating OTC-trading and market infrastructure. The near future will also see Switzerland's Financial Services Act, the Financial Institutions Act and the revised Data Protection Act entering into force. As a result of all these amendments, Switzerland is equipped with a body of regulation that is equivalent to that of its main partners countries. Nevertheless, it has not yet proven possible to reach the much-desired goal of market access through negotiations with EU-member countries nor with other states, despite the fact that Switzerland has passed the Peer Reviews of the Global Forum on Transparency and Exchange of Information as well as those of the Basel Committee on Banking Supervision.

Action on Certification and Promotional Activities

Several years ago, the foreign banks in Switzerland were the first to call for the certification of client advisors. International developments at the time were already pointing in this direction. However, those banks focusing on the domestic market were initially hesitant. In the year under review, several large, internationally-active Swiss banks started to train their client advisors - for the time being those working in international private banking - and to have them certified according to the ISO-Standard. The topic was thus re-launched. The Association subsequently investigated to see whether the staff of its member banks could be eligible for the training programmes. It also wanted to find out whether the programmes could be adapted to meet the training requirements of banks that are part of a global group structure and is in contact with providers with a view to obtaining offers suitable for the foreign banks. Offers of courses and certification should be received in the current year. In the coming months the Association will work on the question of the international recognition of the certificate. This is in the interest of all banks active in crossborder business.

Progress was also made with regard to measures to promote the Swiss financial centre, and the Federal

Department of Finance is now accelerating this project. Under the leadership of the State Secretariat for International Financial Matters (SIF), banks and other representatives of the Swiss financial centre have been working out a promotional project and in the current year will firm up specific measures. The core activity will be a series of events in major countries and financial centres, accompanied by information campaigns about the Swiss financial centre.

The Focus of Interest: Automation and Digitalisation

Over the past year the convergence of FinTech and banks resulted in an intense discussion about possible modernisation projects. During the current year, the Association wants to give its members the opportunity to obtain an overview of the FinTech offers that are of relevance to them, to exchange experiences and to find sourcing partners. The Association's priority, however, will be to engage itself in the discussion about the future framework conditions. The Association supports the main political thrust from the Federal Council for a specific regulatory framework that fosters the development of FinTech. FinTech and banks find themselves on increasingly convergent paths and the future lies in cooperation. Entry barriers for FinTech are not in the interest of the banking sector, neither are they in the interest of the economy as a whole.

FinTech and digitalisation require supervisory law and policies. The FINMA Circular on Video and Online Identification has facilitated the application of new technology in the KYC process. Other FINMA Circulars - for example the draft Circular on Outsourcing - have been deliberately drawn up in a technology-neutral manner. In the year under review, the Federal Council already raised prospects for an easing of regulatory and legal requirements for FinTechs and in January of the current year published draft legislation for the consultation process. This easing for FinTechs opens development possibilities for a wide range of interested suppliers of various services and processes with the result that Switzerland has come up with an alternative to the "regulatory sandbox" project underway in the UK. This "sandbox" approach restricts the offer of innovative products and services to a limited number of firms and for a limited period of time under eased regulatory requirements. A comparison with foreign regulation shows that Switzerland, with its approach, is operating on an equal footing with the larger international financial centres.

Disillusionment: Increasingly Closed Markets for Financial Services

The dynamic discussion about the use of new technology to modernise the financial sector stands in stark contrast to the stalemate on the subject of market access. For many foreign banks, the issue of market access - in particular access to EU markets - remains the most important political concern. With regard to substance, Switzerland's legislative and regulatory framework is equivalent to that of the EU and its member states. In spite of this fact, there is no sign of the provision of crossborder financial services becoming easier. This is because the acknowledgement of a regulatory regime's "equivalence" is a political decision of the EU Commission and not the result of a clearly-defined process. Following the Swiss electorate's acceptance of the popular initiative on mass immigration in February 2014, the EU Commission put its "Swiss file" on the back burner, and even in the current year there is no prospect of a solution. The search for a solution has been made even more complicated following the Brexit vote and the need for an agreement between Switzerland and the EU on an institutional framework governing bilateral relations.

The foreign banks in Switzerland believe that Switzerland could negotiate with the EU or with individual member states with a view to reaching agreement on limited access to the market segment of so-called sophisticated clients - that is, clients deemed to have sufficient assets and investment experience. Switzerland would then call for partial reciprocity because EU financial service providers have virtually unlimited access to the Swiss market. However, talks would have to be resumed before this suggestion could be pursued.

The agreements on an automatic exchange of information should originally also have been linked to the subject of market access. Information exchange only makes sense if crossborder banking business is permitted. However, what is reasonable in terms of economics is not necessarily compelling in terms of politics. Switzerland's partner countries are not interested in an opening of the market. Apart from a few non-binding statements of interests, no results were achieved.

The agreements on information exchange, which have been concluded and signed to date were a factor contributing to Switzerland passing the Global Forum's Peer Review. Nevertheless, Switzerland remains under observation and passing the pending follow-up examinations is not a foregone conclusion. Changes will be necessary with regard to Switzerland's anti-money laundering measures, particularly in the area of international administrative assistance. The number of agreements on information exchange is another factor that will play a role in a forthcoming evaluation.

Restructuring: an International Phenomenon

The restructuring of Switzerland's banking sector continued in 2016. The number of foreign banks active in Switzerland fell by a further five institutions over the past year. At year-end 2016, 107 banks with foreign main shareholders were active in Switzerland; that compares with 148 in 2011. The large international banks remain faithful to Switzerland. 20 of the 28 non-Swiss financial institutions which were ranked as being systemically important by the Financial Stability Board (FSB) in 2016 are still represented in Switzerland today. Three banks (Standard Chartered Bank, Royal Bank of Scotland, Bank of China) completely withdrew from Switzerland over the past few years. Only five banks are not (yet) represented in Switzerland, after one institution, namely the China Construction Bank, opened for business in Switzerland. Thus it was primarily those banks designated by the FSB as being regionally or domestically systemically important which drastically reduced their international business activities, including those in Switzerland.

The phenomenon of consolidation is affecting the entire banking sector. In Switzerland, 312 banks were active in 2011; in 2016 the number had fallen to 260. Across the EU there were altogether 8,061 banks at year-end 2011; by November 2016 the number had fallen to 6,597. All EU member states witnessed a corresponding reduction in the number of banks.

Foreign banks in the EU are also affected. According to information from the Association of Foreign Banks in Germany, the number of foreign banking institutions there fell from 206 in 2011 to 186 in 2015. In the Eurozone the number of foreign banks from members of the eurozone declined between 2011 and 2015 from 326 to 245; during the same period the number of foreign banks belonging to groups which do not have their head office in the Eurozone fell from 185 to 178.

Modernisation and Continuity: Association Activities

The hallmark of the Association's work is continuity. The CEO Lunches that were introduced a few years ago have proven to be very popular and provide a forum for an exchange of views amongst the foreign banks. The annual meeting between members of the Association's senior management and representatives of the Swiss National Bank and the FINMA provided the occasion for an in-depth discussion about the position of foreign banks in Switzerland and also about the whole subject of FinTech. The dialogue that was initiated last year with the head of

SIF (State Secretariat for International Financial Matters) continued this year, this time with State Secretary Jörg Gasser. The meeting with the Association's Board and Senior Management of the SIX Group was adjourned following the resignation of the chairman of the SIX Group's Board of Directors.

The Association's Board decided to replace the Association's database and website. The system currently in use is ten years old and has become technically outdated. The Association was receiving an increasing number of reports from its members about incompatibility issues with their own systems and the required updates would have been more expensive than installing a new system. The project is planned for completion in 2017.

The Association's Office again organised over 50 events dedicated to regulatory topics and regularly published newsletters on regulatory issues. In addition, the Association set up new discussion groups on Retail Banking, Trade Finance and Capital Market Banks and these groups meet regularly to discuss current issues. The "Ostschweizer Gruppe", the events held in Lugano and the regular meetings of the FATCA/CRS-Implementation Group in Geneva provide an opportunity for banks in these regions to meet and exchange views.

There were changes in the foreign banks' representation on the commissions and steering committees of the Swiss Bankers Association (SBA). Following the resignation of Stefano Coduri, former CEO, BSI SA, and shortly after that of his successor Marco Bizzozero, former CEO, Deutsche Bank (Schweiz) AG, from the Steering Committee on Private Banking, the Board appointed its Vice Chairman, Heinrich Henckel, as the Association's new representative. The Board appointed Andreas Markwalder, CEO, Schroder Investment Management (Switzerland) AG to the SBA Steering Committee on Asset Management to replace the outgoing representative, Stephen J. Mills, former CEO of the same company.

A change was also registered at commission-level: René Schwab, Head Legal, Goldman Sachs Bank AG, is to represent our Association on the SBA Commission for Law and Compliance, thereby replacing Simon Trippel, General Counsel, Coutts & Co. AG.

There were also changes to the Board of our Association. Stefano Coduri and Marco Bizzozero resigned from the Board following their departure from their banks. The Board elected Heinrich Henckel, CEO, LGT Bank (Schweiz) AG, and Kristine Braden, CCO (Citi Country Officer), Citibank NA Swiss Branches, as the Association's new Vice Presidents. At last year's AGM of the Swiss Bankers Association (SBA), Heinrich Henckel was elected to the SBA Board of Directors. At this year's AGM Kristine Braden will be put forward for election to the SBA Board of Directors. Our Association's Board nominated Peter Hinder, CEO, Deutsche Bank (Schweiz) AG, as a new member and he will be proposed for election at our Association's AGM.

There was also a change in our auditors' team: the Board nominated Natalie Recknagel, Investec Bank (Switzerland) AG to replace Anastassiya Mächler, who is leaving her bank.

The Association would like to take this opportunity to thank all those who have supported its work and who have promoted the interests of the foreign banks in Switzerland and our Association through their help and commitment.

March 2017.