Report of the Board 2015

Positive thinking in a challenging environment

Over the past year the number of foreign banks in Switzerland fell by a further seven financial institutions. At year-end 2015, 111 banks with foreign shareholders were active in Switzerland. In the current year as well further market exits will be recorded; some banks have already announced their withdrawal from Switzerland and are currently winding up their operations. At the same time a Chinese bank received a banking licence last year, and a former securities dealer is now newly active as a bank.

Public attention is strongly focused on the number of licensed banks, but this does not do justice to structural changes in the industry. Today, the number of institutions, the volume of assets under management in Switzerland as well as the number of employees in the sector are comparable with the figures of about 10 years ago. Furthermore, consolidation is just one aspect of the restructuring going on amongst financial services providers. The relocation of operations to other booking centres within a group and the strong growth in foreign group units are, along with the geographical shift of the growth pole, equally part of this restructuring process. Within Switzerland itself structural changes can be observed. In addition to their private banking operations, many foreign banks have supplemented their business by developing other activities, in particular corporate banking and trade finance.

Furthermore, foreign non-bank financial service providers have been taking a stronger interest in Switzerland as a business location, a fact reflected in the membership figures of our Association. Out of 122 members (as of March 2016), 19 are fund houses. In the previous year the figure was 11 (out of 118 members). Supervisory regulations lie behind this development. The revised Act on Collective Investment Schemes newly stipulates that even foreign funds distributing exclusively to qualified investors must designate a representative and a paying agent, and around 4,000 foreign funds have adapted themselves to conform to the new regulatory requirements. The higher number of licensed representatives is also an indication that asset management in Switzerland continues to be very attractive. No one would take the costly step of becoming a licensed entity if this were not the case.

The structure of the Swiss financial centre will undergo further radical changes should independent asset managers be made subject to prudential supervision. We could then expect to see mergers and new organizational forms in this market segment.

Strategy

Over the past year, banks in Switzerland took further steps towards dealing with the past by settling pending cases. However, not all banks have cleared the subject of the US Program from their desks, and public prosecutors in Germany continue to arraign Swiss banks and their staff.

After lengthy negotiations the agreement on tax issues with Italy was signed, thereby creating a higher degree of legal certainty in crossborder business. The new Anti-Money Laundering Law and Due Diligence regulations conform to the FATF (Financial Action Task Force) standards, and the legal basis for the automatic exchange of information according to the OECD Standard was also created. Switzerland's legal regime now conforms extensively to international standards. This also includes the standards of the Basel Committee on Banking Supervision. A peer review deemed Switzerland's capital and liquidity rules to be consistent with Basel III.

One last major hurdle in the way of international compatibility is this year's second phase of the Global Forum's Peer Review. The focus is on the practice of administrative assistance, and Switzerland has been heavily criticized in the run-up to the review on account of its allegedly restrictive stance with regard to stolen data. However, there is no OECD standard that prescribes an alternative procedure.

Over the years the internal implementation of binding international standards has also revealed the limits of Switzerland's domestic room for manoeuvre. Peer Reviews check for the verbatim implementation of international standards in a very formalistic manner. Even where it would be possible to reach the same goal using another legal basis, this would be considered a breach of the standards and would be rated as a shortcoming. In future, Swiss political and banking circles will have to adapt their tactics to take account of this fact. Instead of putting forward anomalous solutions, we should rather use the interpretation and design leeway afforded to us by international terms of reference. At the same time we must systematically renounce additional national requirements that deviate from or go beyond the international standards. These "Swiss finishes" - just like any unused design leeway - are detrimental to our competitiveness. We cannot afford this: by international comparison the Swiss economy produces with relatively high costs, and the strong Swiss franc has further accentuated this competitive disadvantage. Abandoning unnecessary add-ons can at least partly compensate for this handicap.

Should Switzerland also adapt its legislation to square with EU regulations? Opinions differ from the very start with regard to the Acts on Financial Market Infrastructure, Financial Services and Financial Institutions. "A loss of sovereignty", complains one camp; "Clarity in the provision of crossborder financial services", argues the other.

Business with EU clients - and not only in private banking - remains an important activity of foreign banks in Switzerland. While EU markets may indeed not be the growth markets of the future, a large proportion of the assets managed by the foreign banks nevertheless comes from EU member countries, and for many banks the issue of market access is central.

At present the demand for market access is not realizable because the initiative on mass immigration and the issue of the Swiss-EU institutional framework have made any new negotiations impossible at the moment. Ambassador Roberto Balzaretti clearly emphasized this at our Association's Ordinary General Assembly last year. And yet one day Switzerland and the EU will find their way back to a sustainable relationship based on cooperation. If the banking sector then wants to make market access a subject of discussion it must be in a position to point to a body of EU-compatible regulation. The basic principles of the EU's MiFID and MiFIR Directives should therefore be adopted. Besides, the difference with the situation in Switzerland is not as great as is often claimed - the basic principles are compatible with Swiss legislation and are also applied in case law.

Within our Association tactical considerations have lead to the view that today we should not demand general market access, but rather ask for exemption from restrictive third-country regimes for a specific investor segment. The concept of "sophisticated client" as applied in the UK could be adopted. This concept recognizes the different level of protection necessary for small investors on the one hand and wealthy or "sophisticated" clients on the other. Crossborder business with the latter should be possible. Sophisticated clients should be subject to a slimmer body of rules than small investors with regard to the sale and distribution of products and services. Our Association's Board discussed the concept in detail at a meeting with the UK's supervisory entity, the Financial Conduct Authority (FCA) and in the eyes of the UK authority the regulation is compatible with EU standards.

Why Switzerland?

Crossborder business presupposes that Switzerland remains attractive as a business location. Our Association's Board discussed the subject of business location appeal with the authors of the Global Financial Centres Index, the leading index ranking the competitiveness of financial centres. The take-home message was that Switzerland should positively seize the concept of "Swissbanking" by actively and constantly communicating the strengths of the Swiss financial centre while at the same time addressing those areas perceived as weaknesses. We have injected this idea into a project of the Swiss Bankers' Association which answers a call from the Federal Council to take up reputation management, and in the coming year a lot of our attention will be devoted to this project.

Good things need time, so the popular saying goes, and this also holds true with regard to the certification of client advisors. The demand for such certification was deleted at a preliminary stage of the drafting of the Financial Services Act. When, two years ago, the foreign banks openly promoted such certification, there was little understanding for the initiative within the industry. But since then the wind has changed. Corresponding high-quality training modules are now being offered and there is lively interest. While there is indeed still no legal or supervisory obligation for such certification, the standard is on its way to becoming generally recognized.

The re-orientation of business models to take account of a comprehensively transparent tax environment has influenced the subject of client care and thereby also client advisor certification. And there is another factor which is becoming an increasingly important driving force behind the design of business models, namely the new possibilities offered by technology. New solutions enabling processes to be executed more quickly, safely, directly and cheaply - and grouped under the term "FinTech" (Financial Technology) - were originally promoted as an alternative to banks and their services. Apps handling payment systems, online banking in the mortgage business and so-called "robo-advisors" are changing the traditional processes in a bank. Financial institutions are beginning to integrate such solutions and as a result certain banking activities are becoming simplified or even disappearing altogether. Above all, the nature of demands made on bank employees is changing. At our Board's annual discussion with representatives of the Board of Directors and staff of the SIX Group, we heard that FinTech solutions could particularly benefit smaller financial institutions. The new possibilities offered by technology often help replace fixed costs with variable costs. Our Board will devote more time to this issue in the coming year as the subject is of relevance to every financial institution.

There was another notable phenomenon that characterized the past business year: namely, the almost complete disappearance of the subject of banking secrecy from our radar screens. As a result of increasing transparency and uncertainty about the ends to which exchanged data will be put, the focus now is on data protection and personal security. Switzerland is in a position to place these issues on the international agenda and, from the banks' point of view, engage itself more strongly in promoting their interests.

Association activities

Discussions on strategy have taken on an important role in our Association's activities. There were further luncheon meetings with CEOs of member banks - these are proving to be very popular and provide a platform for an exchange of views among the foreign banks. Our Board also continued its series of meetings with the Governing

Board of the Swiss National Bank and also with members of the Executive Board of the Swiss Financial Market Supervisory Authority (FINMA). Another of the meetings initiated last year with the head of the State Secretariat for International Financial Matters (SIF), State Secretary Jacques de Watteville, took place, and a first meeting was held with the Board of Directors and Executive Board of the SIX Group.

In addition, our Association organised some fifty events on various regulatory issues and also published regular information bulletins on regulatory questions. New discussion groups were also created, covering Retail Banking, Trade Finance and Capital Markets, and they meet regularly to discuss topical issues in their respective fields. The meetings held in the eastern part of Switzerland and the events held in Lugano provided opportunities for financial institutions in those regions to exchange views.

The year under review also saw the reorganisation of our Association's representation on the Commissions of the Swiss Bankers' Association (SBA). The SBA abolished several of its Commissions, including the Commission for Communications and Public Affairs and the Commission for the Safeguarding of Swiss Financial Assets. The Commission for Swiss Client Business and the Commission for Institutional Asset Management were changed into the Steering Committees for Retail Banking and Asset Management. In addition, two new Steering Committees were created, one for Private Banking and one for Capital Markets. These "vertical" Steering Committees are complemented "horizontally" with Commissions for Law and Compliance, Tax, Training and Financial Market Regulation.

Seats on the SBA's Steering Committees are occupied by members of the SBA's Board of Directors, members of the board of directors of the various banking associations or by the CEOs of banks. The Association of Foreign Banks in Switzerland is represented by Stefano Coduri, CEO, BSI SA, (Private Banking); Mauro de Stefani, Chairman of the Executive Board, Banca Popolare di Sondrio (Suisse) SA (Retailbanking); Nick Bossart, Head Investment Banking, J.P. Morgan Securities plc, London, Zurich Office (Capital Markets); and Stephen J. Mills, CEO, Schroder Investment Management (Switzerland) AG (Asset Management).

Our Association's representatives on the SBA's Commissions are: Bernhard Schopper, HSBC Private Bank (Suisse) SA, (nominated; Commission for Tax); Simon Trippel, General Counsel, Coutts & Co. AG (Commission for Law and Compliance); Bernard Fishman, CFO, Bank Hapoalim (Schweiz) AG (Commission for Financial Market Regulation); and Raoul Würgler, Deputy Secretary General, Association of Foreign Banks in Switzerland (Commission for Training).

Stepping down from various Commissions, in some cases already before the reorganisation, are: David Garrido, formerly of HSBC Private Bank (Suisse) SA (Commission for Law and Compliance); Beat Ammann, formerly of BSI SA and Konrad Häuptli, formerly of HSBC Private Bank (Suisse) SA (both from the Commission for Tax); and Walter Mathis, Habib Bank (Schweiz) AG (Commission for Financial Market Regulation). We would like to extend our sincerest thanks to all of the above for their support. We would also like to thank Katrin Frey of Morgan Stanley AG, and Vittorio Ferrario of EFG Bank AG for representing us in the since-dissolved Commission for the Safeguarding of Swiss Financial Assets and Commission for Institutional Asset Management respectively.

There were also changes in the membership of our Association's Board of Directors. Following their co-optation, Hervé Catala, CEO, Crédit Agricole (Suisse) SA, and Adrian Nösberger, CEO, Schroder & Co Bank AG, were voted members of the Board at our Association's Annual General Meeting. However, Hervé Catala had to step down already at the end of last year in order to take over another position in his bank.

Finally, we would like to take this opportunity to thank everyone who has helped us with our work and promoted the interests of the foreign banks and our Association. At a time when we are faced with major challenges as well as with promising opportunities, our reliance on our member banks for their support is greater than ever.

Zurich, March 2016