Report of the Board 2019

Review

During the year under review work continued on the development of a new starting position for the Swiss financial centre. It is a priority of the Board of the Association of Foreign Banks in Switzerland to confirm the role and contribution made by the foreign banks to Switzerland's position as an international financial centre vis-à-vis financial centre organisations here. This interaction helps not only with informing members; the foreign banks can introduce information from their respective international groups into ongoing projects and thus strengthen the Swiss financial centre in its international dimension.

Sustainability

The Association started the year under review with its Annual General Assembly, the conference of which was devoted to the subject of sustainability. The Board chose this subject in order to highlight its importance and to underline the role played by Switzerland. The favourable starting position of the Swiss financial centre was subsequently confirmed. The speakers, who came from a variety of backgrounds, emphasised the opportunities offered by the cluster which has developed here over the years: the "on the ground" experience of international organisations active in humanitarian and environmental areas dovetails with the competence of wealth managers who for decades have been dealing with sustainability issues. At governmental level, initiatives are underway to position Switzerland internationally as a centre of competence and to network with other countries worldwide.

Given its position as the leading financial centre with regard to wealth management, Switzerland can play a substantial role in strengthening sustainable investment categories. Banking associations in Switzerland take the subject of sustainability very seriously and, in addition to other initiatives, would like to put forward standard recommendations with regard to investment activity and the advising of clients. Amongst other things, the Association's Board would like to see an internationally-accepted taxonomy for investment categories adopted in the near future. Investors and financial services companies want to be in a position where they can refer to generally-known standards. It therefore makes sense for Switzerland to actively participate in the work of international committees and help define a frame of reference. Much work has already been done, amongst others by the association Swiss Sustainable Finance whose statistics highlight the rapidly-growing demand for sustainable investments.

The Association's Board took note of the second "Climate Compatibility Assessment" and invited all member banks to take part. The international evaluation measures the advancement of the different countries towards the implementation of the Paris Climate Agreement. The evaluation was modified and, in a new move, now also examines investment portfolios - in securities and real estate - for their climate compatibility. The first results are expected in the autumn of 2020. They will allow participating financial institutions to draw up their own comparative analyses and the Government will be in a position to see where Switzerland stands internationally.

It will be interesting to see how the newly-elected Parliament deals with the subject of sustainability. In particular,

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the Green Party of Switzerland and the Green Liberal Party of Switzerland have gained in political importance, among others at the expense of the parties traditionally favourable towards enterprise and the economy. This new division of political weight will hardly go unnoticed with regard to the legislative programme and the new CO2 Law is a first major project waiting in the wings.

Crossborder Services

It is impossible to imagine the Swiss financial centre without its international dimension, and this holds especially true for the foreign banks here. It will therefore come as no surprise that issues to do with the Swiss financial centre's international interconnectedness have again been high on the Board's agenda in the year under review.

Unfortunately, only little progress at intergovernmental level can be recorded. In the autumn of 2019 Germany's supervisory authority BaFIN questioned the existing regime of free provision of services on a cross-border basis in place with Switzerland and adequate means to assure investor protection. The banks in Switzerland coordinate their response; the German and Swiss authorities pursue their good cooperation. Italy has undertaken a very restrictive implementation of MiFID II which requires third country financial institutions to have a local presence. Formal negotiations with the United Kingdom could begin following a completed Brexit with a view to creating a partnership. There could be potential behind such a partnership especially if the idea of other international financial centres joining were participating.

From the point of view of the foreign banks, it is essential that there should be clear regulation of market access, that is the cross-border provision of financial services. Traditionally, the EU market has been very important. Individual EU member countries continue to be the most important customers for financial services offered from Switzerland. However, the regulatory framework for the cross-border provision of financial services in Europe is becoming ever more complex and demanding. As a result, an increasing number of foreign banks are turning their attention to other, non-European, markets. In doing so a Swiss subsidiary can often call on the network and resources of its parent company - not only at the point of initiating new business, but also with regard to maintaining the customer relationship.

The foreign banks are active in a business area where, thanks to their global presence, they have a clear advantage over Swiss banks. So, while foreign banks cater to the needs of their international clientele in their home countries through staff of the parent company, they also offer clients the possibility of obtaining access to products and services as well as custody services abroad - for example in Switzerland. This approach avoids the difficulties associated with market access and offers clients access to global markets through operational excellence of "Private Banking Swiss Style".

In the field of commercial banking the foreign banks can also place their global network at the disposal of their clients. Many Swiss SMEs are active internationally and are therefore reliant on an international bank which has a global presence as well as an intimate knowledge of local markets. Swiss SMEs therefore value a business relationship with a foreign bank in Switzerland with which they can conduct their international financial affairs. This way they can avoid the complications of banking relationships abroad as well as the problem of maintaining business relationships with various banks in several countries.

The issue of market access - in particular with regard to EU member states - remains unresolved. It is therefore often the case that the foreign banks search for niche markets where they can exercise their core competences and create added value for the Swiss economy.

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Training

During the year under review, the Board held lively discussions with the Swiss Finance Institute (SFI) which is currently revising its training courses. The goal is to build a bridge between research - where the SFI ranks amongst the world's best institutions - and the practical training of professional staff working in financial institutions. The Board exchanged views with the SFI's management and also sounded out the Association's member banks with regard to their expectations and needs. The Board could then identify the need for technical seminars in the form of short discussion forums between SFI researchers and banks. Initial results suggest that this is the correct direction to go in: the SFI's "Master Classes" and "Knowledge Exchange Seminars" aroused keen interest, also within the foreign banks. This closer contact and the regular exchange of views has enabled the SFI to better gauge the needs of the foreign banks and organise the appropriate training modules. The figures clearly show that the SFI is meeting expectations and creating added value, not only for bankers but also for the banks. 16% of those graduating from SFI courses and who work in the financial sector found employment in a foreign bank. The SFI's seminars can be counted as credits when renewing the SAQ Client Advisor Certification and this enhances the recognition of both institutions.

The SFI ranks amongst the top three centres of education in finance in Europe and amongst the top ten globally. In the years ahead, the SFI's good standing amongst the universities teaching banking and finance must be maintained and strengthened. The closer contact between industry and research will make an important contribution towards this goal, and the foreign banks will be involved too.

Digitalisation

The subject of digitalisation remained an important one this year for the Association's Board and its member banks. The Board held several discussions on the challenges and opportunities the new technologies could bring to the international financial centre. The exchange of views with representatives of the Swiss Digital Exchange confirmed that an integrated stock exchange infrastructure, for example like that of the SIX Group, offers major advantages when opening new market segments. The experience of SIX Group with regard to trading, transfer and safekeeping of securities is immediately tangible and is easily converted to new values - digital values. Also advantageous is the fact that the SIX Group, as an institution supervised by FINMA, has intimate knowledge of the regulatory and supervisory requirements and is used to working with them.

Later in the year the Board had a meeting with representatives of Lugano's banking sector and discussed the subject of artificial intelligence and its applicability in banks. Although Ticino might be considered small as a centre of research, thanks to the short distances partnerships rapidly spring up and lead to interesting synergies and sources of ideas. Artificial intelligence offers valuable opportunities, also within private banking. It should not replace the client advisor in his or her interaction with the client, but rather act as a support. It can systematically record the behavioural patterns and investment preferences of the client; it can rapidly analyse client profiles; and it can devise customised investment solutions which match the specific needs of the client.

COVID-19

The global spread of the Coronavirus in the spring of 2020 confronted the economy and banking sector with great challenges. Suddenly, emergency scenarios which had been devised and honed over years became a reality and the often-longed-for home office became part of an enforced daily routine. Meetings here and there were out and video conferences at specific times shaped the working day. Over time, the unimaginable standstill of the economy

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crept closer and closer: schools were closed, and employees began working from home. With a view to supporting the economy, in particular SMEs, the Federal Council - together with the banks - quickly drew up a programme which in the initial weeks helped give thousands of firms access to a liquidity pool of several billion francs. Many foreign banks active in commercial banking participated in the programme from day one. Some initial problems arose and it was not clear whether credit granted by the branch of a foreign bank would also be refinanced by the Swiss National Bank. Thanks to the coordinated intervention of associations concerned with the issue, the final result was that foreign-controlled banks and Swiss banks could participate in the programme in the same way.

Association Activities

During the year under review a handover took place in the Association's Office. Secretary General Martin Maurer expressed his wish to take early retirement at the end of 2019. His longstanding deputy, Raoul Würgler, took over the position of Secretary General with effect from 1 January 2020. In this function he will be supported by Florian Specht who joined the Association's Office in December 2019. Elisabel Lopez, who has been with the Association for many years, will continue to look after administrative matters.

Against this background, continuity remains the hallmark of the Association's work. The CEO Lunches which were launched a few years ago remain an important forum for the exchange of views between member banks and the Association's Board and are very valuable for the development of the Association's work. The annual meetings with representatives of the Swiss National Bank and FINMA's Commission and Executive Board provide a valuable setting in which to discuss the situation of the foreign banks in Switzerland. The newly-inaugurated meetings with the State Secretariat for International Finance SIF are a further opportunity for an exchange of views between the foreign banks and the authorities. A constant topic of discussion at these meetings concerned questions about international markets and rules governing market entry.

This year also saw another meeting with the Board and Executive Board of the SIX Group. In addition to strategic issues concerning the SIX Group, the topic of cybersecurity was also on the agenda. This is a subject of great importance, not only for banks but also for SIX as an infrastructure provider.

During the year the Association's Office again organised some 50 events on regulatory issues and informed members about new developments via regularly-published information bulletins. In addition, regular meetings take place in the eastern part of Switzerland and in Lugano at which we update member banks about pending issues and hold discussions with them. In Geneva, the CRS/FATCA Implementation Group provides local institutions, including Swiss banks as well as trusts and wealth managers, with the opportunity to exchange experiences.

The Association's 47th Ordinary General Assembly of 5 June 2019 saw the election of the following members to the Board: Alex Classen, HSBC Private Bank (Suisse) SA; Peter Gabriele, J.P. Morgan (Suisse) SA; Alfonso Gómez, BBVA (Suiza) SA; Anne Marion-Bouchacourt, Société Générale Switzerland; Claudio de Sanctis, Deutsche Bank (Switzerland) Ltd; Monique Vialatou, BNP Paribas (Suisse) SA. The Board appointed Alex Classen, HSBC Private Bank (Suisse) SA, as second Vice-Chairman. Claudio de Sanctis stepped down from the Board shortly after his election as he was assigned new duties at his bank.

Gabriele Domenighetti, Banca del Sempione SA, and Silvio Fischer, Banque Internationale à Luxembourg (Suisse) SA were elected for a further term of office as auditors.

The following changes are recorded in the Association's representation on the Swiss Bankers Association's (SBA)

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Commissions and Steering Committees: Dieter Semling, LGT Bank (Schweiz) AG, will represent the Association on the SBA's Commission on Financial Market Regulation and Accounting following the resignation of Bernard Fishman. Didier Kreutter will take over from his colleague Reto Somalvico, Bank J. Safra Sarasin AG, as the Association's representative in the SBA's Expert Group on Information Security and Cyber Defence.

The Association's Board proposed Soren Mose for a further mandate as representative on SIX's Board of Directors. Patrick Vögeli, BNP Paribas (Suisse) SA, has stepped down from the SIX Regulatory Board; the AFBS Board is presently looking for a successor. Martin Menzi, BBVA (Suiza) SA, will represent our Association on the Swiss Finance Institute's Sounding Board.

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.

Zurich, May 2020

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