SwissBanking

Compendium 2010

The Swiss Banking Sector

Preamble

This compendium aims to provide an overview of structures, processes and institutions in the Swiss banking and financial centre. In our Activity Report (www.swissbanking.org) we provide comprehensive information about the key events of the past year. In the compendium we focus primarily on the global structures and institutions of the banking sector and their development. We also address those events of the past years, which were relevant to these issues.

The compendium is intended above all for readers outside the industry who seek to gain a general understanding of the banking sector. The compendium may also serve as support literature for secondary school and university level lectures and as a general reference.

The 2010 edition is an expanded update of the 2006 version. The annex contains a glossary of terms and abbreviations as well as a selection of web sources and additional literature.

Basel, April 2010

Swiss Bankers Association
PO Box 4182
4002 Basel
Switzerland
office@sba.ch
www.swissbanking.org

Table of contents

3 Preamble

9 **1 | Banks within the overall economy**

9 **1 | 1 The banking sector in times of turmoil**

11 International regulation efforts

12 Tax debate and pressure on the bank client confidentiality

13 **1 | 2 Economic significance**

13 Value added

14 Employment and productivity

14 Tax contribution

15 Direct foreign investments

17 **2 | Swiss financial centre institutions**

17 **2 | 1 The Swiss National Bank**

17 Monetary concept

18 Monetary control

19 Monitoring of the system stability

19 Other duties of the SNB

20 International co-operation

20 Monetary policy during the financial crisis 2008–2009

22 **2 | 2 Swiss Financial Market Supervisory Authority (FINMA)**

22 Financial Market Supervision Act (FINMASA)

23 FINMA activities

24 **2 | 3 SIX Group**

24 Securities Trading

25 Securities Services

26 Financial Informations

26 Payment Transactions

27 **2 | 4 Swiss Bankers Association**

27 Members

27 General Assembly, Board of Directors and Office

28 **2 | 5 Other associations**

30 **2 | 6 Swiss Banking Ombudsman**

31 **3 | Bank training and further education**

31 **3 | 1 Bankers Association focus**

31 **3 | 2 Education system in banking**

32 Strategy

32 Basic commercial training in banking

32 Bank entry for secondary school graduates

32 Umbrella communication for basic bank education

33 Non-academic further education

33 Academic courses

34 Further education in banking and finance

34 Swiss Finance Institute

35 **4| Banks and bank-like companies**
35 **4| 1 Categories of banks**
35 Cantonal banks
36 Big banks
36 Regional and saving banks
37 Raiffeisen banks
37 Private banks
37 Foreign banks
38 Other banks
38 **4| 2 Non-bank financial intermediaries**
38 Independent asset managers
39 PostFinance

41 **5| Wealth management**
41 **5| 1 Definition of wealth management**
42 **5| 2 Volume of assets managed in Switzerland**
43 **5| 3 Global wealth management**
45 **5| 4 Products and services**
46 **5| 5 Business models**

47 **6| Retail banking in Switzerland**
47 **6| 1 What is retail banking?**
47 **6| 2 Significance for the national economy**
47 **6| 3 Selected retail banking products**
47 Savings and personal accounts
48 Consumer lending and mortgages
49 Investment products
49 Payments
49 Retirement provisions
50 **6| 4 Retail banking outlook**

51 **7| Selected banking instruments and activities**
51 **7| 1 Structured products**
52 **7| 2 Collective investment schemes**
53 **7| 3 Commodity trade finance**
54 **7| 4 Fiduciary business**
54 **7| 5 Investment banking**
55 **7| 6 Alternative investments**
55 Private equity
55 Hedge funds

57 **8 | Financial market regulation and supervision**
57 **8 | 1 Basic information**
57 Micro- and macro-prudential supervision
57 Precautionary and curative regulation
58 Regulatory effect
59 **8 | 2 Types of regulation**
59 Regulation imposed by the legislator and authorities
60 Auditors as an extension of FINMA
60 Self-regulation and code of conduct
62 Alignment of regulatory standards
63 International alignment of supervision
64 **8 | 3 Business requirements and current regulatory efforts**
64 Equity capital
65 Liquidity
65 Depositor protection
66 Remuneration schemes
67 Other regulatory efforts

69 **9 | International cooperation in tax matters and criminal cases**
69 **9 | 1 Selected items of Swiss regulation**
69 Bank client confidentiality
69 Differentiation between tax evasion and tax fraud
70 International legal assistance in criminal cases
70 Repatriation of potentates' money
71 **9 | 2 International tax agreements**
71 Bilateral II
73 Qualified Intermediary Agreement
73 Swiss double taxation agreements
74 Article 26 of the OECD model agreement on double taxation
75 **9 | 3 Anti-money laundering measures**
75 Legal basis
76 Anti-money laundering self-regulation
76 Financial Action Task Force
77 Implementation of the FATF recommendations in Switzerland
79 **Glossary of terms**
85 **Abbreviations**
87 **Web sources**
89 **Selection of literature**

1 | Banks within the overall economy

1 | 1 The banking sector in times of turmoil

The years 2007 to 2009 were marked by extraordinary economic developments. The subprime crisis in the US prompted a financial crisis in 2007 in which financial institutions suffered losses and went bankrupt. The situation came to a head in September 2008 with the collapse of the US investment bank Lehman Brothers. The ensuing crisis of confidence in the financial sector further accelerated the downward spin. This development had a strong impact on the real economy and by the end of 2008 the global economy at large was affected by the crisis.

The worldwide financial and economic crisis also left its mark on the Swiss economy. The State Secretariat for Economic Affairs (SECO) reported a moderate GDP growth of 1.8% for 2008, but the development in certain industries turned negative especially from the third quarter on. In 2009 the overall economy caved in and the GDP contracted by 1.5%, marking the severest annual decline since 1975. Notably the export trade, which is of great importance for the Swiss national economy, was hard hit and exports fell by 12.6% in 2009.

In view of the banks' difficulties, many countries took measures to support their banking sectors and avert a systemic crisis. For instance, the US government drew up a bailout package of around 700 billion US dollars in October 2008 in order to purchase defaulted loans from the banks and thus help the banks de-risk their balance sheets. In some countries, including the UK, the US, Germany and Island, certain banks were even partly nationalised. Moreover, many industrialised countries put substantial programmes in place to stimulate their economies and thus absorb the effects of the financial crisis on the real economy.

In Switzerland, UBS had a significant exposure in US mortgage-backed securities and was therefore impacted most severely by the global financial market disruptions. In the autumn of 2008 it transpired that even with the countermeasures, the bank still held substantial positions in illiquid (i.e. non-transferable) securities and other troubled assets. Since an exacerbated crisis of confidence could not be ruled out, it was decided to take measures to strengthen the overall system. The Swiss Federal Government and the Swiss National Bank (SNB) jointly worked out a set of measures, which included the urgent bail out for UBS, which was too big to fail. In December 2008, an urgency bill was passed to increase investor protection. Two key measures were taken to support UBS: the bank's capital base was strengthened with CHF 6 billion, and illiquid assets of USD 38.7 billion were transferred to a special-purpose entity of the SNB (SNB StabFund).

With the dramatic weakening of the economy, the parliament decided at the end of 2008 to launch an economic stimulus plan of CHF 432 million to support the real economy. Two additional plans were launched in 2009, adding the total of stabilisation measures up to CHF 2 billion.

Central banks around the globe reacted to the deteriorating economic outlook by adopting clearly reflationary monetary policies. Interest rates were lowered to historically lowest nigh-zero levels. The Swiss National Bank also responded with an unprecedented easing of monetary policy, which helped absorb the economic downturn in Switzerland.

Although it would be premature to herald the end of the crisis, toward the end of 2009 the world economy began to rally from the recession. The Swiss national economy has also experienced a moderate growth since the third quarter of 2009. It has weathered the crisis well compared to other industrialised countries, partly because it did not need to struggle with the effects of excessive real estate speculation. Swiss banks had learnt their lessons from the real estate crisis in the 1990-ies and introduced rating schemes and risk-adjusted pricing early on, thus anticipating the key principles of capital requirements under Basel II. The solid financial condition of private households and the comparatively robust labour market were also a relief. However, in 2009 employment was declining for the first time in six years.

The Swiss capital market experienced a slump toward the end of 2008, but recovered well in March 2009, also owing to SNB interventions, and many bonds were issued successfully. Even though terms of lending had tightened somewhat under the market conditions, Switzerland unlike other countries had never experienced an actual credit squeeze. The market for syndicated loans – another important source of finance for large companies – also continued to function well with a large number of successful transactions.

In August 2009, the Swiss government was able to sell its stake in UBS equity successfully with net proceeds of CHF 1.2 billion. The banking industry's overall earnings are still below the pre-crisis peak levels, but most Swiss banks were able to hold their ground during the crisis. In contrast to the US where 165 banks had to close down in 2008 and 2009, none of the Swiss institutions needed to file for bankruptcy.

Notwithstanding all these recovery trends, the financial and economic crisis left lasting marks and the growth outlook for the world's and the Swiss economy remains unstable. Economies may experience another slowdown effect once the global publicly sponsored economic stimulus plans expire.

The financial crisis has effected two fundamental approaches at the political level: the call for stricter financial business regulation became louder, and various countries stepped up their pressure on banking confidentiality.

International regulation efforts

Banking is among the tightest regulated industries in any country's economy, and yet the financial crisis could not be averted. Moreover, the crisis revealed a number of flaws in international regulation. In simple terms, prior to the crisis it was assumed that the safety of the whole banking system is given if each individual bank is safe and has an adequate capital base to absorb any potential losses. The consequent theory was that it would suffice to supervise each bank at the micro level, which would automatically preclude a crisis in the entire system (at the macro level).

However, in retrospect this theory has proved delusive. The concept failed to accommodate the possibility that in a crisis situation banks could be forced to act in a way, which would adversely impact the refinancing of other financial institutions. This could be the case, for instance, when a bank's capital base is impaired by losses and the bank is then forced to reduce its lending to other banks, in order to restore its own capital base to statutory levels. A shortage in interbank lending on a large scale can trigger a liquidity crisis in the entire financial system.

Institutions work at a national and international level to propose regulatory measures that would help strengthen the financial system and protect it from systemic risk. Such proposals relate to the micro level (e.g. increasing capital requirements for banks) as well as to the macro level (e.g. greater system stability).

At the international level, the G20, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) proved particularly diligent, having elaborated a whole range of new proposals. In addition to capital and liquidity requirements, these proposals also deal with topics such as remuneration and the "too big to fail" issue.

The Basel Committee is responsible for defining the capital requirements for banks (Basel II) and intends to raise the total equity requirements in the medium term from the levels currently required under Basel II. With regard to remuneration systems, the consensus lies primarily on aligning compensation with the banks' sustainable results. This approach aims to discourage from assuming excessive risk as a result of a short-term focus. The FSB has issued according guidelines on behalf of the G20. In November 2009, the Swiss Financial Market Supervisory Authority (FINMA) released its guidelines on remuneration schemes, which are binding for certain Swiss financial institutions.

To reduce the systemic risk, emanating notably from institutions that are too big to fail or too interconnected to fail, there is a clear need to ensure that insolvent banks can be wound up in a regulated manner. Banks with a potential to harm the system if they failed, should therefore be required to set up a type of last will. This means they would have to elaborate the strategic procedures that would come to bear, should they need to file for bankruptcy. With most systemically relevant banks being active on a global scale, the respective regulation would have to be aligned internationally. As this publication went to press, most of the above proposals were still subject to discussion and reviews.

Tax debate and pressure on the bank client confidentiality

Public debt has soared in many countries as a result of substantial public spending on rescue plans and to stimulate the economy. Many governments therefore need to find ways to cut their expenses or generate new revenues. Given the necessity to raise new funds, governments are intensifying their efforts to repatriate cross-border assets, which are currently managed by competitive financial centres in smaller countries. Due to its international significance as an asset management hub, the Swiss financial centre has become a specific target.

Consequently, the EU, the US and the OECD have increased their pressure on Switzerland as an alleged tax haven. As the Swiss double taxation agreements (DTA) contained a reservation with regard to article 26 of the OECD model agreement, the OECD threatened in early 2009 to place Switzerland along with other financial centres on a black list of countries deemed uncooperative in tax matters. The Swiss Federal Council averted this by deciding to abandon its reservation about article 26 and revise the double taxation agreements. Once the parliament ratifies these revised DTA, Switzerland will provide administrative assistance not only in cases of tax fraud but also in cases of tax evasion.

However, the pressure remains high as certain EU representatives require Switzerland to participate in an automatic exchange of information on bank accounts, a standard practice aimed for among EU countries. Together with Luxembourg and Austria, Switzerland opposes to switch to an automatic exchange of information. The protection of bank clients' privacy has to remain warranted, because the mutual trust and respect between the government and the public is an essential feature of the Swiss understanding of state governance.

Nonetheless, Switzerland has adopted a forward-looking strategy that would reposition its financial centre, envisaging growth based primarily on attracting tax-compliant assets. Moreover, existing tax sensitive foreign assets are to be regulated in line with their respective domestic tax authorities' requirements, without becoming subject to statutory repatriation. All measures are to be taken to assist clients in complying with tax requirements. In this vein, Switzerland offers to ensure enhanced taxation of foreign assets and capital gains. To this end, the Swiss Bankers Association and the Swiss Federal Government propose to introduce a flat rate tax. Foreign governments would thus receive a direct tax feed, which would certainly be welcome in times of record budget deficits, while protecting the privacy of honourable bank clients.

The Swiss financial centre is also committed to gaining market access in Europe in order to provide financial services from Switzerland. International openness and an exemplary set of regulations are key features of the Swiss financial centre. Against this background, and in view of the acceptance of international OECD standards with regard to administrative assistance, unilateral discrimination among closely related trading partners is inacceptable and should be eliminated.

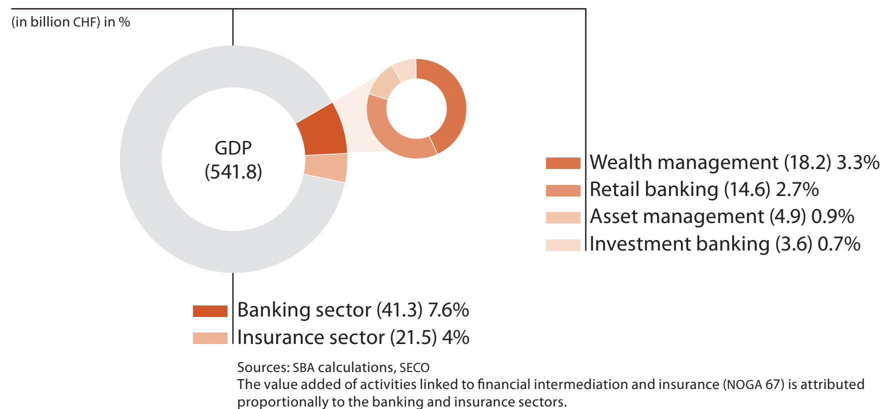
1 | 2 Economic significance

Value added

With a value added of nearly CHF 62.8 billion or 11.6% of gross domestic product (GDP), the financial sector was among the key business sectors in Switzerland again in 2008. The banking sector contributed CHF 41.3 billion to the real value added, which corresponds to 7.6% of GDP. The insurance industry contributed CHF 21.5 billion or 4% of GDP.

The value added of the banking sector is in turn broken down into the business segments of retail banking, wealth management, asset management and investment banking:

Value added of the banking and insurance sector (2008)



Sources: SBA calculations, SECO
The value added of activities linked to financial intermediation and insurance (NOGA 67) is attributed proportionally to the banking and insurance sectors.

The key importance of the financial sector to Switzerland as a business location becomes even more apparent when taking into account also the direct and indirect contributions of other business sectors. This includes services provided by non-financial businesses to the financial sector as well as other indirect beneficial effects. To quote but two examples: a construction company building a bank's offices, or a foreign private banking client who combines his visit to the bank with a holiday in Switzerland. Financial firms also promote the growth of other businesses, for instance by granting loans for building or expanding production facilities or by providing business disruption cover.

Even by international comparison, the financial sector ranks high in Switzerland. Its contribution to the total value added is twice to three times larger than in any other European country except Luxembourg.

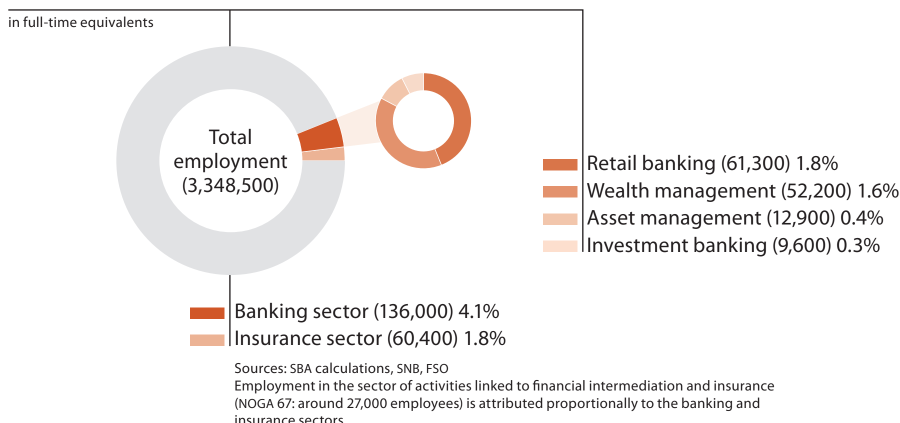
Employment and productivity

In 2008, around 196,400 people or 5.9% of the Swiss working population were employed in the overall financial sector, of which 4.1% in the banking sector and 1.8% in the insurance sector.

Almost 40% of bank employees work for big banks. Nearly three-quarters of all insurance employees work in property and casualty, followed by life and reinsurance.

Employment in banking and insurance sector (2008)

in full-time equivalents



Sources: SBA calculations, SNB, FSO
Employment in the sector of activities linked to financial intermediation and insurance (NOGA 67: around 27,000 employees) is attributed proportionally to the banking and insurance sectors.

Productivity in the financial sector (value added divided by number of employees) is clearly superior compared to the average productivity in other important sectors. The 5.9% of the working population employed in the financial sector account for 11.6% of the overall gross economic output. In other terms, the productivity per financial sector employee is almost twice the overall average.

Productivity in the financial sector and other industries in 2008

%	Employees (proportion)	Value added (proportion)	Productivity*
Banking sector	4.1	7.6	185.9
Insurance sector	1.8	4.0	220.6
Manufacturing and processing	20.3	19.3	94.9
Cars and durables	15.3	12.9	84.1
Hotels and restaurants	5.6	2.2	38.8
Construction	8.9	5.2	58.7
Health and welfare	10.7	5.8	54.7
Real estate, IT, R&D	12.4	10.4	84.0

Source: FSO, SECO
* Average = 100
Employment and value added in the sector of activities linked to financial intermediation and insurance (NOGA 67) is attributed proportionally to the banking and insurance sectors.

Tax contribution

Banks are among the major taxpayers in Switzerland, even though there is no standard method of attributing specific tax categories to the banking sector. The tax contribution of the banking sector may be structured in these four categories:

- Taxes paid directly by the banks, including primarily the tax on capital and income generated in Switzerland, as well as part of the issue tax and the portion of value added tax (VAT), which banks pay but cannot deduct as prepaid tax due to limited taxation of financial services ("taxe occulte" or hidden tax on VAT-exempt bank services).

- Taxes paid through the banks' production factors. This category includes the bank employees' personal income taxes on salaries and bonuses, as well as income tax paid by Swiss tax residents on dividends from banks.
- Taxes paid by clients on financial transactions processed by banks in Switzerland. This category includes in particular part of the "residue" of withholding tax (the part that Swiss tax residents do not reclaim, and the withholding tax from non-Swiss tax residents) as well as a part of the stamp duty. It also includes the 25% of retained tax for the EU (taxation of savings income) that remains in Switzerland, as well as the VAT on financial services.
- Taxes related to financial transactions without the involvement of banks (e.g. stamp duty paid by securities dealers outside the banking sector).

Taxes from the banking sector 2005–2008

in CHF millions	2005	2006	2007	2008
Direct tax				
Capital and income tax	4,235	4,450	2,970	524
Income tax from employees	2,810	3,203	3,381	3,265
Income tax on dividends	1,206	1,265	1,181	735
Indirect tax				
Stamp duty	1,587	1,742	1,799	1,792
Withholding tax	2,189	2,160	2,316	3,545
Value added tax	1,288	1,336	1,307	1,424
EU tax retention	40	134	163	185
Total	**13,353**	**14,290**	**13,118**	**11,468**
Percentage of total tax revenues (at federal/cantonal/municipal level)	13%	13%	12%	10%*

*Projected tax revenues
Source: Swiss Federal Finance Administration FFA, SBA calculations
Tax revenues from banks include taxes on related financial business activities (e.g. independent asset management).

In conclusion, over the past four years, banks contributed on average more than CHF 13 billion per annum to the public revenues, either directly through the taxable incomes paid to their employees and the taxable profit distributions, or indirectly through stamp duty and withholding tax most of which were generated by banks.

Direct foreign investments

Direct foreign investments are investments made by Swiss companies outside Switzerland with the purpose of establishing a strategic long-term relationship with the company in which they invest, and ensuring a significant influence on the company's management. According to the OECD definition, a long-term interest is given if the direct investor holds at least 10% of voting rights in the direct investee. Direct foreign investment subsumes a variety of transactions such as opening non-independent branch offices, entering into joint ventures, establishing subsidiaries, or mergers and acquisitions. Loans to foreign subsidiaries within the group and profit retention by foreign subsidiaries are also deemed direct investments. A distinction is made between annual direct investments (periodic value) and the existing portfolio of direct investments (cumulative value). The latter represents the accumulated annual inflows and outflows, and reflects market volatility and currency fluctuations.

By international comparison, Swiss direct investment abroad is quite substantial. This is also reflected in the ratio of the cumulative Swiss direct investment abroad to the nominal GDP, which was 149% at the end of 2008. Banks and insurance companies account for roughly one-quarter of these direct investments.

Capital held abroad by banks and insurances

In CHF billions	2006	2007	2008
Bank capital	81.4	86.8	92.7
Insurance capital	96.8	81.8	96.8
Total Swiss capital held abroad	694.6	764.6	808.6
Percentage share of the financial sector (in %)	25.7	22.1	23.4

Source: SNB, Monthly Statistical Bulletin, March 2010

Vice-versa, foreign direct investments in Switzerland are equally important to the Swiss financial sector. The capital held by foreign direct investors in the Swiss banking and insurance sector amounted to about CHF 59.2 billion. Furthermore, a substantial number of shareholders in large Swiss financial companies are non-Swiss.

2 Swiss financial centre institutions

2 1 The Swiss National Bank

The Swiss National Bank (SNB) was established in 1907 as an independent central bank and is responsible for the monetary and currency policy. Public shareholders (cantons, cantonal banks, etc.) hold around 54% of the National Bank's stock. In line with art. 99 of the Swiss federal constitution, the SNB's primary purpose is to pursue a monetary and currency policy that serves the interests of the country as a whole.

The SNB's legal basis is set out in the revised National Bank Act (NBA), which came into effect on 1st May 2004. The new NBA sets out in detail the SNB's constitutional mandate. It defines price stability as the SNB's primary objective, which has to be ensured taking the economic development duly into consideration. It specifies the National Bank's independence (authority to act independent of instructions) and stipulates a formal accountability vis-à-vis the Swiss Federal Council, Parliament and the general public. As an integral part of this accountability, the SNB has to submit to the Swiss Federal Assembly an annual report on the fulfilment of its tasks.

The SNB distributes one-third of its profits to the Federal Government and two-thirds to the cantons. The 2008 agreement on the distribution of profits of the SNB envisages an annual distribution of CHF 2.5 billion for the financial years 2008 to 2017.

Monetary concept

Price stability is an essential prerequisite for growth and prosperity. Inflation and deflation have undesirable effects on the distribution of money and equally disrupt the development of the economy. The SNB strives to ensure price stability in the medium and long term and to enable the economy thereby to maximise its production capacities. The SNB thus materially shapes the settings for the development of the economy. Inflation forecasts play a key role in the monetary concept pursued by the SNB. The concept consists of three elements:

- An explicit definition of price stability. The SNB equates price stability with a rise in the national consumer price index of less than 2% per annum. By maintaining the price stability, the SNB thus also seeks to preclude any deflationary development.
- The use of a broad-based inflation forecast as a main indicator. This is a consensus forecast, which takes into account individual indicators such as exchange rate developments, money supply and the output gap (i.e. the difference between actual and potential production) as well as the results of various macro-economic models. The medium term inflation forecast serves as a basis for monetary policy decisions and is a vital element of communication with the public.
- A target range for the 3-month Libor (London Interbank Offered Rate) as an operational target for the implementation of monetary policy.

The SNB publishes a quarterly inflation forecast for the following three years, and bases its assumptions on an unchanged 3-month Libor. Its forecast thus shows how the situation would develop were the SNB to remain inactive. If the conditional forecast indicates, for instance, a steady rise of inflation above 2%, the SNB would see itself compelled to act. However, the SNB does not react automatically to the inflation forecast, but also takes the general economic situation into account in order to determine the extent of its reaction.

Monetary control

The SNB controls money market rates by directing the liquidity supply for commercial banks. Current account deposits, i.e. non-interest bearing sight deposits at the SNB, represent an essential part of the commercial banks' liquidity. The supply and demand for current account deposits is balanced in the money market (interbank market). The banks' demand for current account deposits derives from statutory liquidity requirements as well as the need for funding non-cash payment transactions. The SNB controls the supply by buying or selling the banks' assets for Swiss francs.

The SNB bases the implementation of its monetary policy on the interest rate levels in the money market, thereby using the 3-month Libor as a benchmark. The SNB generally sets a target range of 1 percentage point for the 3-month Libor. While the inflation forecast is indicative of the SNB's long-term monetary policy objectives, the interest rate range reflects the SNB's intentions in the short term. The SNB usually reviews the interest rate range on a quarterly basis and justifies any amendments. The SNB also communicates at which level within the interest rate range it expects the 3-month Libor to move.

The SNB uses basically two regular monetary control instruments: Open-market transactions and standing facilities. Open-market transactions are used for supplying money market liquidity. The SNB conducts such operations through auctions carried out by way of interest rate or volume tenders. In a volume tender, the SNB's counterparties request a specified amount of liquidity at a fixed price (repo rate), whereas in an interest rate tender auction the counterparties also quote the interest rate they are prepared to pay. Standing facilities include for instance short-term bridging loans, which help overcome an unexpected shortage of liquidity. Both of these regular monetary instruments of the SNB are based on repurchase agreements.

In a repo transaction (repurchase agreement), the SNB purchases securities from banks, which then repurchase them on a fixed date. During the term of the agreement, the SNB supplies its contracting party with Swiss franc liquidity and retains the equivalent securities in its custody. The repurchase agreement is basically a secured loan whereby the debtor pays an interest (repo rate) to the creditor during the life of the agreement. The repo rate, the scope of the individual transactions and the respective maturity depend on the monetary policy requirements. The maturity of repo transactions is generally one week. However, under special circumstances it may also vary from overnight to one year. The SNB sets the maturity of repo-transactions in such manner that commercial banks have to request liquidity on an almost daily basis in order to achieve the average giro balance necessary to meet minimum reserve requirements in any given reporting period. The securities pledged as collateral limit the counter-party risk in a repurchase agreement to the spread between the market value of the collateral and the amount of the loan. This spread is assessed daily on a mark-to-market basis and settled by a margin transfer. To be acceptable as a pledge, the securities have to meet the SNB's requirements with regard to the issuer's currency, liquidity and credit rating.

In addition to these regular instruments, the SNB may engage in spot exchange and forward transactions, currency swaps, proprietary interest bearing bonds as well as buying and selling securities denominated in Swiss francs. The SNB may also issue, buy or sell loans, securities, precious metals and currency pairs.

Monitoring of the system stability

The revised National Bank Act of 2004 stipulates a clear mandate for the SNB to ensure the stability of the financial system. The stability of the financial system is based primarily on the stability of the individual market participants and an effective supervision of banks. The Swiss Financial Market Supervisory Authority (FINMA) ensures the latter. The SNB participates in structuring the fundamental conditions for the financial centre also by monitoring vital payment and securities clearing systems. The SNB defines minimum standards for payment and clearing systems that may affect the stability of the financial system. These standards are geared to respective international standards. The SNB is also the lender of last resort. If unable to refinance their business in the market, domestic banks may turn to the SNB in its capacity as lender of last resort to obtain liquidity under specific conditions and against the pledge of a collateral. Such liquidity support is designed to avert a systemic crisis in the financial sector, and not to rescue individual banks from bankruptcy.

Other duties of the SNB

The SNB has the statutory monopoly for issuing bank notes in order to ensure cash supply. By appointment of the Federal Government, the SNB is also responsible for the coin distribution. To this effect, the SNB deals with the head offices and regional offices of banks, Swiss Post and Swiss Federal Railways (SBB). It balances seasonal fluctuations in bank note demand and replaces damaged bank notes. Banks, the Swiss Post and cash operators are in charge of the retail distribution, which includes direct cash transactions with customers.

SIX Interbank Clearing AG operates the SIC electronic interbank clearing system for non-cash payment transactions, by appointment of the SNB. As of the end of 2009, 373 commercial banks were settling their gross payments and part of their bulk payments via SIC on a 24-hour basis.

The SNB also builds currency reserves. SNB assets consist essentially of gold and currency reserves as well as domestic financial assets (domestic securities and money market paper). These assets form part of national assets and play a crucial role in monetary and currency policy. Part of these assets is used directly in the execution of monetary policy: the SNB purchases assets in order to supply the economy with central bank liquidity. Unsecured currency reserves are mainly held in key currencies. They enable the SNB to support the Swiss franc in the event of a currency weakness in the market.

The SNB offers banking services to the Federal Government and advises the federal offices on questions of monetary and currency policy. In addition, the SNB participates in raising funds by issuing government bonds.

The SNB issues various statistics, notably the monetary aggregates and banking statistics as well as the balance of payments. The SNB's authority to raise statistics is closely linked to the performance of its statutory brief: monetary and currency policy, supervision of payment and securities processing systems, and the maintenance of the financial system stability.

International co-operation

As an open economy, Switzerland benefits from an efficient and stable international currency system. The SNB contributes to the international currency co-operation by participating in various international institutions and committees. The SNB co-operates with the International Monetary Fund (IMF), the Group of Ten (G-10), which consists of the ten leading industrial countries and Switzerland, as well as the Bank for International Settlement (BIS).

In 2007 the SNB became a member with one seat in the Financial Stability Board (FSB). The Board groups together the national authorities in charge of financial stability, international financial institutions, international associations of regulatory and supervisory authorities, as well as expert committees of central banks. The FSB and the IMF are currently developing an early warning system for identifying financial crises. Switzerland is actively involved in this work.

The Federal Act on International Monetary Assistance (MAA) came into effect on 1st October 2004. The new Monetary Assistance Act provides a broad legal basis for Switzerland's financing obligations within the context of international monetary cooperation. This includes in particular providing multilateral aid in the event of disruptions to the international monetary system, participating in special funds of the International Monetary Fund (IMF), and granting bilateral loans to countries with which Switzerland has especially close ties in terms of economic and monetary policy.

Monetary policy during the financial crisis 2008–2009

With its monetary policy, the SNB helped significantly in overcoming the financial crisis in Switzerland. In view of the dramatic deterioration of the financial and economic environment in 2008 and 2009, the SNB reacted by easing the monetary policy substantially and strongly expanding liquidity supply. The banking system had virtually unlimited access to liquidity at varying maturities.

As the financial crisis broke out in the late summer of 2008, it became apparent that certain Swiss banks might also be affected due to their exposures in the mortgage-backed securities market in the US and because they held substantial risk in debt financing. To avert a crisis of confidence and due to the systemic relevance of the big bank UBS, the Federal Council and the SNB elaborated a set of measures in mid-October 2008, aimed at strengthening the Swiss financial centre. Two of these measures consisted of re-capitalising UBS by the Federal Government and shifting USD 38.7 billion worth of the bank's illiquid assets to a special-purpose vehicle at the National Bank (SNB StabFund). In August 2009, the Federal Government was able to sell its stake in UBS at a gain of CHF 1.2 billion.

Seeing the financial crisis affect the real economy, the SNB took measures to stabilise the economy by lowering the desired level of the 3-month Libor gradually by a total of 250 basis points to 0.25% between September 2008 and March 2009. In effect, the SNB pursued a zero-interest rate policy since the end of 2008. With the traditional interest rate instrument having reached the inherent limits of its effectiveness, the SNB was facing new challenges. The quarterly assessment in March 2009 revealed the need for a further easing of the monetary policy, because the economic situation had deteriorated dramatically and deflationary risk had increased. Capital market funding conditions for companies had tightened considerably and the Swiss franc was on the verge of strengthening further.

Against this background, the SNB felt compelled to take unconventional measures to further expand monetary supply. Such measures consisted of two elements:

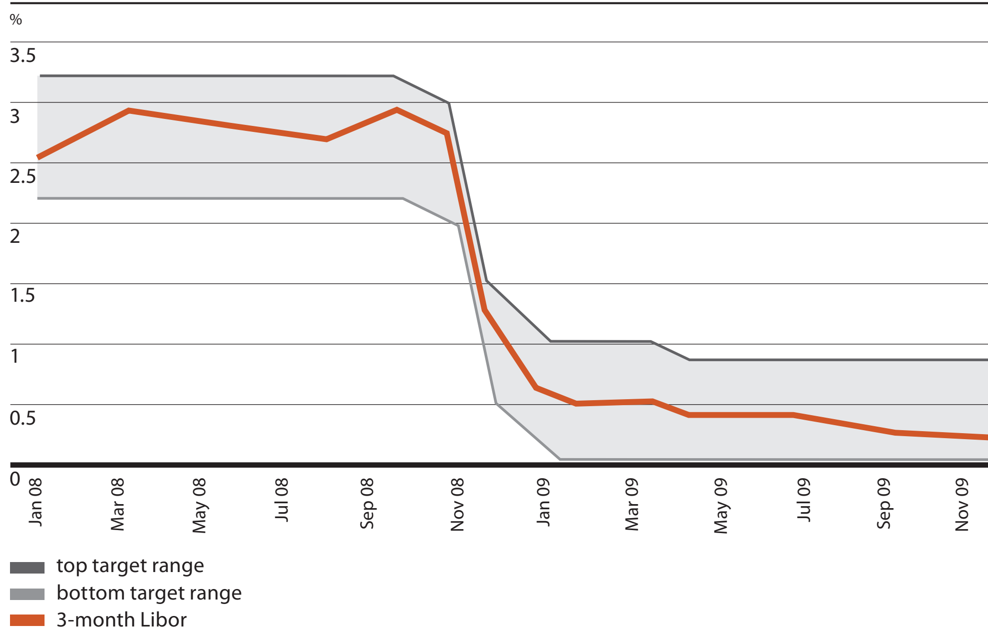
- Extending the maturities of repo transactions,
- Buying foreign currencies and Swiss franc bonds.

The SNB thus aimed to increase liquidity (quantitative easing) and reduce certain risk premiums (credit easing).

The SNB's unconventional set of measures consisted predominantly of foreign exchange interventions. The currency transactions proved effective in stopping the Swiss franc from strengthening further vis-à-vis the euro and in clearly reducing the exchange rate volatility between these two currencies. The objective of buying Swiss franc bonds from Swiss private issuers was to reduce credit and maturity risk premiums in the Swiss capital market. In addition to purchases in the secondary market, the SNB was also operating in the primary market (issue market) and was buying corporate bonds in 2009. Such activities were strictly limited to transferable bonds traded at market. The SNB ceased buying corporate bonds as soon as Swiss capital market conditions had eased noticeably.

The measures taken by the SNB during the crisis proved overall very effective. Moreover, the SNB demonstrated that even in a zero-interest rate environment it is able to resort to additional monetary instruments and thus react nimbly to tightening monetary conditions. When applying unconventional measures, particular care has to be taken with regard to their effects on medium and long-term price stability. Likewise, the subsequent return to a normal monetary policy must not choke off an emerging rally. The question of how to abandon an expansive monetary policy gradually in the medium term is accordingly pivotal to the SNB.

SNB interest policy 2008–2009



Source: SNB

2 | 2 Swiss Financial Market Supervisory Authority (FINMA)

On 1st January 2009, the Swiss Financial Market Supervisory Authority (FINMA) was established as a successor to the Swiss Federal Banking Commission, the Federal Office of Private Insurance, and the Anti-Money Laundering Control Authority. FINMA is established as an independent federal government institution under public law.

The supervision of banks, stock exchanges and insurances and the anti-money laundering control are now combined in one authority – FINMA. FINMA is structured functionally by area of expertise, thus providing a platform for using synergies and exercising a balanced supervision of equivalent or comparable risks in the areas of banking and insurance.

In its capacity as an independent supervisory authority, FINMA aims to protect financial market clients such as creditors, investors and policyholders, as well as to ensure proper functioning of financial markets. The key objective is to strengthen the confidence in the efficiency, integrity and competitiveness of the Swiss financial centre and to protect its reputation. FINMA thus performs protection tasks:

- System protection
- Bank client protection
- Protection of policyholders
- Investor protection
- Protection of reputation
- Competitiveness of the financial centre

Economic benefits as well as systemic risks are inherent in the level of integration and the size of the financial centre. Against the background of dynamic developments in the financial markets, this fact highlights the key importance attached to the regulation and supervision of financial markets.

Financial Market Supervision Act (FINMASA)

The Financial Market Supervision Act (FINMASA) governs the internal organisation of the institution (bodies, responsibilities, executive bylaws) and stipulates the key supervisory instruments and sanctions. FINMASA is designed as an umbrella law for the following seven legal acts:

- Swiss banking law (SBL)
- Stock exchange law (SESTA)
- Investment fund law (IFL)
- Insurance supervision act (ISA)
- Insurance contract act (ICA) (various aspects)
- Anti-money laundering act (AMLA)
- Mortgage bond act (MBA)

FINMA activities

As a state regulatory body, FINMA is endowed with supreme authority over banks, insurance companies, stock exchanges, securities dealers, collective investment schemes and other financial intermediaries. It is responsible for combating money laundering and, where necessary, conducts financial restructuring and bankruptcy proceedings. In addition, it supervises the instructions issued by the Swiss Takeover Board with respect to public takeover bids for listed companies.

FINMA grants operating licences for companies and organisations subject to its supervision, monitors these institutions with respect to their compliance with the applicable laws, ordinances, directives and regulations, as well as with the prevailing licence requirements.

The responsibilities of FINMA include the supervision of banks, securities dealers, stock exchanges, markets, insurances and other financial intermediaries, as well as collective investment schemes. FINMA is also responsible for conducting restructuring and liquidation proceedings, combating money laundering and supervising the disclosure of participation interests in and public bids for listed companies.

Where necessary and as provided by law, FINMA imposes sanctions, provides administrative assistance and regulates. In other words, it participates in the amendment of laws and related ordinances, issues circulars and, within its scope of authority, ordinances. FINMA also ensures that self-regulation is duly recognised.

On the national level, FINMA is in close contact with the Federal Department of Finance (FDF) and the Swiss National Bank (SNB). In 2007, FINMA and SNB signed a Memorandum of Understanding (MoU) on financial market stability. This MoU was revised in February 2010 to accommodate the insights gained from the close cooperation between the two institutions during and after the financial crisis. In addition, FINMA fosters relations with the Swiss Bankers Association (SBA), the Swiss Insurance Association (SIA) and the Swiss Funds Association (SFA), as well as with other financial market participants, notably the SIX Group.

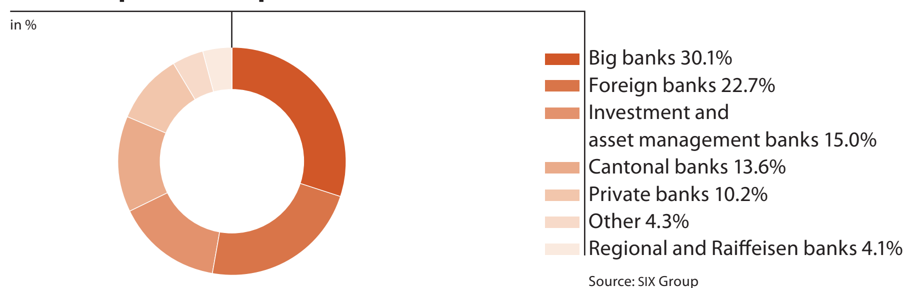
At the international level, FINMA co-operates with organisations such as the Basel Committee on Banking and Supervision (BCBS), a committee formed by central banks and bank supervision authorities, the International Organization of Securities Commissions (IOSCO) with representatives of stock exchange supervisors from around the world, and the Financial Action Task Force (FATF), the international anti-money laundering authority. The objective of such co-operation activity is to exchange information and participate in shaping the developments on an international level.

2 | 3 SIX Group

SIX Group AG is based in Zurich and operates the financial centre infrastructure in Switzerland. It was established in early 2008 resulting from the merger of SWX, Telekurs Group and SIS Group. SIX Group covers the entire value chain of the financial centre infrastructure, offering its services in the areas of securities trading, securities services, financial information and payment transactions. SIX Group operates in 23 countries and has about 3,700 employees in Switzerland and abroad.

The company is fully owned by its approx. 160 domestic and foreign users. Ownership is distributed in a manner to ensure that no single category of banks holds an absolute majority of shares. The chart below shows the ownership structure of SIX Group.

SIX Group ownership structure



Source: SIX Group

SIX Group covers the business fields of Securities Trading, Securities Services, Financial Information and Payment Transactions.

Securities Trading

The Securities Trading business field includes the development and operation of electronic trading platforms (exchanges), the cash and derivatives market and the distribution of information products and index calculations. Issuers are offered listing on a globally recognised stock exchange via SIX Exchange Regulation.

Swiss stock exchanges are organisations governed by private law. The Federal Act on Securities Exchanges and Securities Trading (SESTA) assigns them a high level of autonomy and stipulates the principle of self-regulation for stock exchanges. The operation of a stock exchange in Switzerland is subject to a licence from FINMA. FINMA examines whether transparency and the equal treatment of investors are guaranteed and whether the stock exchange is able to ensure the proper functioning of securities markets.

The history of Swiss stock exchanges goes back more than 150 years. In 1996, traditional floor trading at the stock exchanges in Geneva (founded in 1850), Zurich (founded in 1873) and Basel (founded in 1876) was replaced by today's fully electronic SIX Swiss Exchange, which is part of SIX Group. SIX Swiss Exchange is the trading platform for various securities segments such as Swiss shares, Swiss franc denominated and international bonds, as well as exchange traded funds (ETFs) and Swiss franc repo transactions. Since May 2009, all Swiss securities have again been traded at SIX Swiss Exchange, including the blue chips that used to be traded at SWX Europe (formerly virt-x) in London from 2001 until spring 2009.

The Securities Trading field also comprises SIX Exfeed, a global provider of international raw financial data. SIX Exfeed disseminates the market data generated on SIX Swiss Exchange and Scoach.

Moreover, SIX Group holds major interests in Eurex, Scoach, STOXX and Swiss Fund Data, for instance in the form of joint ventures.

Securities Services

The Securities Services business field provides a largely automated infrastructure for clearing and settlement of securities transactions. Its offering also includes interbank securities custody and administration services as well as services geared at public companies.

SIX SIS AG is the Swiss central securities depository. It engages primarily in the custody and settlement of Swiss and non-Swiss securities, and executes the attendant corporate actions. As a global custodian, it offers also professional custodian services. Prior to electronic automation, all exchange traded securities used to be transported physically from the seller to the buyer. Banks usually held the securities in their custody on behalf of their clients – a laborious and costly endeavour. Today, all that is issued is a global certificate, which is deposited centrally. The owner then receives a deposit statement of the securities deposited or booked in his or her favour.

SIX x-clear AG acts as Central Counterparty offering clearing services. Clearing ensures the efficient handling of risks that arise from closed but not executed contracts on a transaction level. The Central Counterparty acts as an intermediary assuming the role of buyer vis-à-vis every seller and as seller vis-à-vis every buyer. SIX x-clear operates currently as a service provider at SIX Swiss Exchange and at the London Stock Exchange. SIX x-clear holds a banking license under Swiss law and has the status of a Recognised Overseas Clearing House in Great Britain.

SIX SAG AG specialises in administering share and special registers, as well as conducting annual general meetings for other companies.

SIX Group offers comprehensive IT and logistics services through **SIX Systems AG**. This includes SECOM (Settlement Communication System), which enables market participants to process their domestic and international securities transactions through a single interface.

Financial Information

SIX Group provides international financial information globally through **SIX Telekurs AG**. SIX Telekurs keeps the world's largest database of structured and coded information on securities management. It acts as the official numbering agency for Switzerland, Belgium and Liechtenstein, and is thus responsible for issuing securities numbers.

SIX Group also controls **Rolotec AG**, a Swiss software company specialising in market information systems, data processing and knowledge management. Rolotec serves a diversified client base. Especially in the area of market information systems, Rolotec operates in various European countries, as well as the US and Asia.

Payment Transactions

The Payment Transactions business field offers services in the area of acceptance, recording and smooth processing of cashless payments by credit, debit, prepaid and value cards, as well as interbank payment processing in Swiss francs and euro, direct debits and PayNet, the network for processing electronic invoices.

SIX Multipay AG is a sales and marketing organisation for card-based means of payment and ensures the acceptance of such products at the points of sale, in the Internet and at automatic teller machines. The product portfolio includes the cards Visa, MasterCard, Diners Club, Discover, JCB, V Pay, Maestro, as well as the prepaid chip CASH. Moreover, SIX Multipay engages in Bancomat (ATM) acquiring, a system that enables various credit and debit cards to be used for cash withdrawals at all ATMs in Switzerland.

SIX Multi Solutions develops and provides complementary services related to credit and debit card processing, including the distribution of electronic vouchers and any related products and services such as the electronic GiftCard and the Mobile Voucher application. The Mobile Voucher function can be installed on standard checkout terminals and ATMs to offer calling credit for prepaid mobile phones.

SIX Pay S.A. was established in July 2009 in Luxembourg and acts as contracting partner for traders based in the EU. Six Pay offers safe acceptance and processing of Visa, Diners Club, Discover, JCB, V Pay und Maestro cards, as well as simple pan-European solutions for cashless payments at points of sale.

SIX Card Solutions AG is Switzerland's leading service provider in electronic processing of credit, debit and value card payments. SIX Card Solutions develops and operates an open platform for card-based payments. Through its network of international offices, SIX Card Solutions provides services in the area of payments infrastructure, card issuing as well as payments and clearing in 27 countries. Its client base consists of international cashless payment partners, including traders, acquirers, card issuers and financial institutions.

SIX Interbank Clearing AG operates the interbank clearing systems SIC and euroSIC. The SIC system processes Swiss franc payments on behalf and under the supervision of the Swiss National Bank. On behalf of the Swiss financial centre and in co-operation with SECB Swiss Euro Clearing Bank, SIX Interbank Clearing provides clearing and settlement services for euro transactions via the euroSIC system. Both interbank systems provide access to domestic and international payments for financial institutions in Switzerland and abroad.

SIX Paynet AG operates a network for VAT-compatible electronic bill presentment and settlement within the business-to-business and business-to-customer scope in Switzerland. On behalf of Swiss banks, SIX Paynet also operates the direct debit processes LSV (private direct debit) and BDD (business direct debit) for the settlement of cross-border direct debit transactions in Swiss francs and euro.

2 | 4 Swiss Bankers Association

The Swiss Bankers Association (SBA) was founded in Basel in 1912. It is the umbrella organisation of the Swiss financial centre, counting among its members practically all banks, auditing firms and securities dealers. The SBA

- represents the interests of banks in dealings with authorities in Switzerland and abroad
- promotes Switzerland's image as a financial centre throughout the world
- fosters open dialogue with an discerning public in Switzerland and world-wide
- develops the system of self-regulation in consultation with regulatory bodies
- supports the training of junior staff and executives in the banking industry
- facilitates the exchange of information and knowledge between banks and bank employees
- provides advice to its members
- co-ordinates joint projects undertaken by the Swiss banks.

Members

Banks, auditing firms and securities dealers operating in Switzerland or Liechtenstein are eligible for membership of the SBA. The Executive Committee of the Board of Directors decides on the admission of new members. The SBA has now more than 360 institutional members (as well as 350 Raiffeisen banks) and around 16,900 private members. Its office employs a staff of over 50. A total of 13 commissions and their task groups deal with key issues affecting the industry. Serving on these commissions are some 440 representatives of various bank groups as well as specialists from the SBA.

General Assembly, Board of Directors and Office

In addition to the General Assembly, which convenes annually at the Swiss Bankers Day, the SBA has the following corporate bodies and committees: the Board of Directors, the Executive Committee of the Board of Directors, its Office, commissions, project groups, task groups and groups of experts.

The Board of Directors is appointed by the General Assembly and determines the basic orientation of the association's activities. The Committee appointed by the Board of Directors formulates, inter alia, the SBA's position within the scope of consultative procedures. The Office takes care of the association's daily business and represents the SBA in dealings with other associations and public institutions. Commissions deal with key issues affecting the industry. The SBA's main objective is to safeguard and promote an optimal environment for the Swiss financial services industry in Switzerland and abroad.

2 | 5 Other associations

The interests of the Swiss financial centre are also protected by a number of other associations, in addition to the Swiss Bankers Association as the umbrella organisation of banks, auditing firms and securities traders.

Specific interests of the various types of banks are protected by the respective group associations. The group associations nominate the bank groups' representatives in the bodies, committees, commissions and task groups of the SBA. They also keep their members informed and support them in implementing new statutory and regulatory provisions.

The **Association of Foreign Banks in Switzerland** (AFBS) is the second-largest banking association, following the SBA, with 148 members as of April 2008 (banks controlled by foreign shareholders, and Swiss branches of foreign banks). The association promotes equal treatment of foreign institutions and services in Switzerland and supports initiatives aimed, at strengthening the competitiveness of the Swiss financial centre.

The **Swiss Private Bankers Association** (SPBA) was founded in 1934, is based in Geneva and has 14 members. It promotes the professional interests and the status of private bankers, as well as sustained favourable regulatory conditions for asset management in Switzerland.

The **Association of Swiss Commercial and Investment Banks** (ACI) was founded in 1981 and has 27 member banks based in Switzerland. The association advocates regulation that accommodates needs of small and medium-sized banks, and promotes adequate market conditions for commercial and investment banks in Switzerland.

RBA Holding was founded in 1994 and has 50 regional banks as its members. Unlike other associations, RBA Holding actually provides banking services to its affiliates on behalf of its members.

As of the end of 2009, 350 independent co-operative banks were members of **Raiffeisen Switzerland.** Raiffeisen Switzerland is also structured as a co-operative and co-ordinates the group's activities. Moreover, it creates the requisite framework conditions for its members' business activities and provides advice and support for its members. Raiffeisen Switzerland also provides group-wide strategic management and risk controlling services.

All 24 Swiss cantonal banks are integrated within the **Association of Swiss Cantonal Banks (ASCB).** The association represents the joint interests of its members and supports measures that serve to strengthen the position of cantonal banks in Switzerland.

The interests of the Swiss financial centre are represented by a variety of organisations in addition to the banking associations:

The **Swiss Funds Association** (SFA) was founded in 1992 and represents collective investment schemes and their managers in Switzerland. It represents the interests of its members and fosters favourable conditions for the production, asset management and the distribution of collective investment schemes. SFA also took the initiative in self-regulation and provides sample documents for its members. FINMA recognised the SFA's self-regulatory provisions as a minimum standard which applies discerningly to license holders under the investment fund law.

The **Swiss Bank Employers' Association** (AGV Banken) was established on 1st January 2010, replacing the former employers' organisation. AGV Banken serves and represents the interests of employers in staff and social policy matters vis-à-vis stakeholders (federal government, authorities and bank staff unions). It thus participates in shaping the general labour market conditions in Switzerland and leverages developments related to the banking industry. Only members of the Swiss Bankers Association qualify as members of the AGV Banken.

The **Swiss Association of Asset Managers** (SAAM) is the leading national trade association of independent asset managers in Switzerland. SAAM lobbies on behalf of its members in politics and strives to ensure favourable general conditions for a successful economic development of the independent asset management industry in Switzerland. SAAM also issues the code of conduct for its members. The association's self-regulatory function in terms of the anti-money laundering law is officially approved by FINMA.

The **Swiss Association of Independent Securities Dealers** (SAISD) protects and represents the interests of its members and participates in legislative and regulatory processes, provides self-regulation and promotes the reputation of securities dealers and the Swiss financial centre in Switzerland and abroad.

The **Swiss Insurance Association** (SIA) is the umbrella organisation of private insurers. SIA promotes favourable economic conditions in particular for pension funds, insurance supervision, insurance operation and disclosure.

Economiesuisse is the umbrella association representing the Swiss economy. Its members include 100 trade associations, 20 cantonal chambers of commerce and individual companies. Economiesuisse represents its members in all aspects of economic policy in politics and vis-à-vis the public. The association fosters favourable general conditions for Swiss business and promotes the competitiveness of the Swiss economy and its companies. It focuses on policies of foreign trade, finance and tax, education and research, energy, environment and infrastructure.

2 | 6 Swiss Banking Ombudsman

The Swiss Banking Ombudsman acts as an impartial mediator between banks domiciled in Switzerland and their customers. Dissatisfied bank customers may call upon the Banking Ombudsman to settle their disputes with their banks in an efficient and unbureaucratic manner, without a need to take tedious and costly legal action.

The Ombudsman is also a port of call for people with enquiries regarding dormant assets. Assets are deemed dormant if the respective customer contact has ceased and cannot be established despite the bank's active search efforts. The SBA has issued guidelines on this subject (see guidelines of the Swiss Bankers Association on the treatment of dormant accounts, custody accounts and safe deposit boxes held in Swiss banks).

As an institution, the Swiss Banking Ombudsman started its operation in 1993 and deals with around 1,400 requests per year. A multilingual team of lawyers, economists and banking specialists support the Banking Ombudsman. The forum is funded by the Swiss Banking Ombudsman foundation, which was set up by the Swiss Bankers Association. The foundation board consists of independent individuals who elect the Ombudsman.

The Banking Ombudsman is not a public court, but rather promotes the dialogue between the parties. It does not pass a legal judgement, but mediates a negotiated agreement between the parties. The Ombudsman's recommendations are not binding. It remains at the parties' discretion to adopt them or take further steps, such as legal action. However, experience has shown that the solutions mediated by the Banking Ombudsman – being based on expert knowledge – are generally accepted.

The Ombudsman keeps requests confidential and will contact the bank only with the client's prior consent.

3 | Bank training and further education

3 | 1 Bankers Association focus

In a mainly knowledge-based society such as Switzerland, education and executive training are of great economic and social importance. Anyone who invests systematically in his or her education may expect sustainable high returns on this investment. The quality and extent of the total investment in education and human capital enhance the productivity, innovation power and consequently the competitiveness of an overall economy. The way knowledge is generated, accumulated, managed and used has a direct influence on a country's economic performance, the entrepreneurial success of its companies and even the careers of every individual employee.

Few developed economies accord the same strong weight as Switzerland to the overall knowledge-based sector. The latter includes not only the high-tech industry, but also skill-intensive services industries (banks, insurances and business-related services such as IT, consulting and telecommunications). The skill-intensive industries have grown faster in Switzerland than in any other OECD country since 1990.

In the long run, innovation is the key driver for higher productivity and sustainable economic growth. Hence, the performance of the innovation system – and thus indirectly also education and executive training – is exceptionally important. Swiss scientists lead the global ranking with approximately 1,800 academic and technological publications per one million residents.

The Swiss Bankers Association (SBA) specifically supports and promotes education and financial markets research programmes. In view of the size, vigour and diversity of the financial industry, and with due respect to open competition among schools and scientists, the SBA neither intends nor wishes to influence the education system comprehensively and directly. Nonetheless, being a business world organisation, the SBA takes influence on the system classification as well as key segments of the extensive banking and finance education landscape.

3 | 2 Education system in banking

The education system in banking builds on the secondary school level I. It starts with the basic commercial education in banking or the bank entry course for grammar school graduates. Further education at a non-academic tertiary level is provided at the University of applied sciences in banking and finance (HFBF) and at Universities of applied sciences offering Bachelor of Science courses in business administration with a focus on banking and finance. Such tertiary-level education courses take a generic focus on banking and are structured as part-time postgraduate programmes. Specialisation and higher academic levels can be achieved in part-time certification courses offered at universities and universities of applied sciences at the levels of Certificate of Advanced Studies (CAS), Diploma of Advanced Studies (DAS) and Master of Advanced Studies (MAS).

Strategy

Promoting young talent is an important aspect in ensuring the banks' competitiveness. The banks' joint strategy as defined by the SBA education commission is geared at the following objectives:

- Ensuring a sufficient number of young talent with adequate skills.
- Creating and supporting an education offer commensurate to meet Switzerland's high national standards and business-related quality criteria.
- Contemporary, efficient and effective strategic management of core training programmes, including quality assurance.
- Ensuring that graduates have access to a comprehensive offer of complementary further education.

The strategy covers only a small part of the comprehensive education offer, yet it contributes to increasing the market transparency and thus fosters enhanced information on options for potential candidates.

Basic commercial training in banking

Basic commercial training [1] is the central component of bank training. It lasts three years. Students acquire theoretical and practical training on the job with a bank and in educational establishments as part of a programme based on the SBA's bank apprenticeship model. The practical education at a bank is the core element. Basic commercial knowledge is conveyed at vocational schools, whereas industry-related and general corporate skills are taught at the Center for Young Professionals in Banking (CYP). The basic commercial education at a bank allows automatic access to HFBF.

Basic commercial training with professional matriculation offers in-depth academic education, generally acquired alongside basic commercial training. This level may also be achieved on completion of the basic training, either part-time within one and a half or two years, or full-time within one year. Holders of a professional matriculation diploma have automatic access to universities of applied sciences.

Bank entry for secondary school graduates

Every year, several hundred people complete bank entry courses for secondary school graduates [2] at various banks in Switzerland. These courses last 18 months to two years and include a schedule of internships in various banking departments to prepare graduates for a career in the industry. Basic bank training is specifically geared towards marketing and client management. Bank entry courses are a career step towards further education at the tertiary level.

Banks and banking schools offering SBA certified bank entry programmes have to meet specific standards. The SBA supervises compliance with these standards, monitors examinations and certifies the diplomas.

Umbrella communication for basic bank education

Due to demographic changes, the number of young talent entering the labour market will be declining over the next years. As a result, competition for the best young talent is growing among companies and industries, including banks. Banks and the SBA are therefore striving to approach and appeal to grammar school and senior type secondary school (Sekundarschule I) graduates. In this vein, an umbrella communication strategy for basic bank education was launched in early 2010 under the label of SwissBanking Future. With this joint umbrella communication on basic bank education, SBA supports its members to stand their ground

as an industry in a tightening competition for talent. The umbrella communication is designed to complement the communication efforts of individual banks, which ultimately remain autonomous in their recruitment activities.

Non-academic further education

The **higher specialist course in Banking and Finance** (HFBF) **3** has been nationally recognised since December 2009 as a business-oriented course of study. The course takes three years on a part-time basis and in combination with work, resulting in the federal "Diploma in Banking and Finance HF". Addressing primarily graduates of basic commercial education in banking who aspire a higher level of general banking education, the course builds on the knowledge acquired in that basic education programme. The didactic training concept is designed to promote and require a strong ability to learn independently. Lessons in practical and social skills are integrated and taught simultaneously with the respective professional skills.

The objective of a **Bachelor programme in business administration at a university of applied sciences majoring in Banking and Finance** **4** is to provide university-level education with approx. 30% of the curriculum consisting of a standardised focus on banking. In addition to generic business administration skills, this programme conveys specific know-how in banking and finance.

The SBA recommends its members to encourage their employees to take this course at one of the universities of applied sciences that meet the association's defined criteria for Bachelor programmes in business administration with a major in finance and banking at a university of applied sciences. Three schools are currently recommended by the SBA: The Institute of Financial Services Zug (IFZ) at the Lucerne University of Applied Sciences and Arts, the School of Management and Law at the Zurich University of Applied Sciences, and the University of Applied Sciences in Business Administration Zurich. In principle, the SBA is willing to co-operate with all schools of applied sciences that meet its standards.

Holders of a Bachelor's degree in business administration with a major in banking and finance from a school of applied sciences, as well as graduates of a higher specialist course in finance and banking have access to the comprehensive further education offer in banking and finance. Additionally, holders of a Bachelor's degree in business administration from a school of applied sciences are entitled to acquire a consecutive Master's degree (business administration with a major in banking and finance).

Academic courses

University schools of economics and law, as well as exact sciences (mathematics, information technology sciences, etc.) are particularly relevant for banks and financial companies. The Bachelor's degree is the first level students have to acquire, before they are admitted to higher level programmes (Master, PhD). As a first-level degree, the Bachelor's degree is intended to provide access to a professional career. The Bachelor's degree is required for admission to a Master course **5**.

Further education in banking and finance

There is a broad range of postgraduate courses 6. At university level, they include in particular the Certificates of Applied Sciences (CAS), the Diplomas of Applied Sciences (DAS) and the Masters of Applied Sciences (MAS). Non-academic further education in banking also includes senior professional and expert certifications and international professional certificates such as Chartered Financial Analyst (CFA).

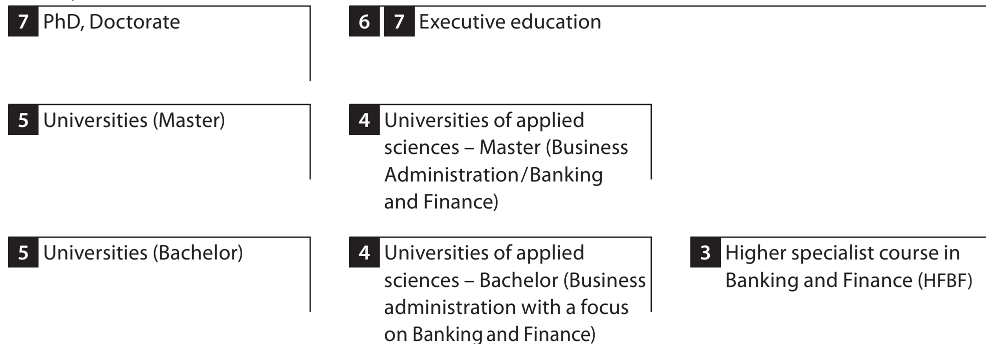
Banks will continue to recruit candidates from all relevant educational backgrounds and at all levels. In this vein, they offer attractive training opportunities, which may not only be an aim in themselves, but also enable graduates to access further education and gain maximum flexibility in shaping their own careers.

Swiss Finance Institute

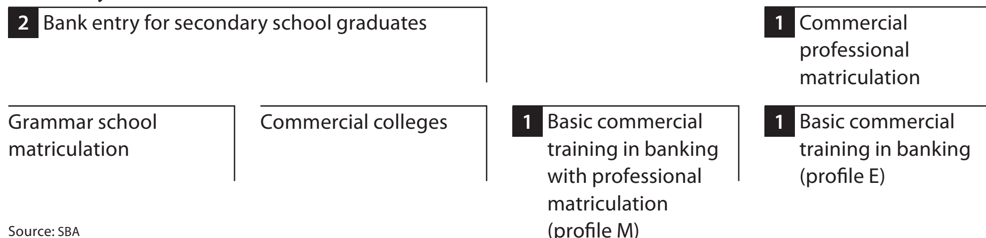
The Swiss Finance Institute 7 was established as a foundation in August 2005 by the banks, SWX, the federal government and leading universities in Switzerland. The objective was to combine and strengthen existing efforts to promote research and education in the area of banking and finance and thus achieve higher levels of excellence. A basis was thus created for providing the financial centre with the talent that is required to further strengthen its leading position. The Swiss Finance Institute is a public-private partnership that supports research projects and the establishment of appropriate structures at Swiss universities in the area of banking and finance and sponsors visiting professorships. It has signed co-operation agreements with universities to this end, formalising the establishment of three regional research centres (Swiss Finance Institute Zürich, Swiss Finance Institute Léman, Swiss Finance Institute Lugano). Based on an agreement, the Swiss Finance Institute also co-operates closely with the Centre of Competence in Research "Financial Valuation and Risk Management" (NCCR FINRISK), which is sponsored by the Swiss National Science Foundation. The Swiss Finance Institute foundation also conducts its own PhD programme and offers various executive education programmes and courses.

Overview of the education system in banking

Tertiary level



Secondary level



Source: SBA

4 Banks and bank-like companies

The concept of "banks" includes all financial intermediaries that are governed by the Swiss Banking Law (SBL). Pursuant to art. 2a of the banking ordinance, the definition of banks which are subject to registration includes all institutions that publicly solicit third-party money for the purposes of safekeeping. Other criteria for the definition of banking activities are met by institutions that:

- refinance themselves substantially through non-group banks for the purpose of financing other non-group third parties, and
- purchase or publicly offer securities in the primary market.

Institutions which are subject to the SBL are required to submit to the SNB at regular intervals a report on their balance sheet, income statement, equity and liquidity. The SNB statistics generally relate to the business activities of the parent company. This covers the domestic head office plus the legally non-independent subsidiaries in Switzerland and abroad. At the end of 2008, the SNB bank statistics covered 327 banks with approx. 110,000 employees in Switzerland.

Number of banks and total assets (2008)

	Number of banks	Total assets in CHF billions	Proportion of total assets
Cantonal banks	24	389	13%
Big banks	2	1,885	61%
Regional and saving banks	75	90	3%
Raiffeisen banks*	1	132	4%
Private bankers	14	41	1%
Foreign banks	154	355	12%
Other banks	57	187	6%
Total	**327**	**3,079**	**100%**

* Raiffeisen banks comprise 367 member banks.
Source: SNB

4 | 1 Categories of banks

The Swiss banking system is based on the concept of universal banking, whereby all banks can offer all banking services. Nevertheless, it has seen the development of various categories of banks that have come to specialise in specific areas. Swiss banks are structured in the following categories.

Cantonal banks

Cantonal banks are defined as banks with a statutory basis under cantonal law, with the canton holding a minimum of one-third of the bank's capital and voting rights. With the revised Banking Law of 1st October 1999, the state guarantee is no longer a constitutive characteristic of cantonal banks. Only the canton of Berne plans to phase out the state guarantee by 2012. All other cantonal banks continue to benefit from unrestricted state guarantee, with the exception of Banque Cantonale Vaudoise and Banque Cantonale de Genève, of which the former had no state guarantee at all and the latter a limited state guarantee even prior to the Banking Law revision.

Cantonal banks may be established either as public institutions or public limited companies. 16 of the 24 cantonal banks are public legal entities in their own right. Six cantonal banks are mixed stock companies or entities under special law: Banque Cantonale Vaudoise, Zuger Kantonalbank, Banque Cantonale du Jura, Banque Cantonale du Valais, St. Galler Kantonalbank and Banque Cantonale de Genève. The cantonal banks of Berne and Lucerne are private stock companies.

As at the end of 2009, the cantonal banks' total assets ranged from just below CHF 2 billion to CHF 117 billion. The smaller cantonal banks concentrate on savings and mortgage business, while the larger ones offer a wide range of services and are basically no different from the average full-service bank. The Association of Swiss Cantonal Banks (ASCB) represents the joint interests of cantonal banks.

Big banks

The category of big banks consists of two banks: UBS AG and Credit Suisse Group. A strong international focus and business network is a characteristic shared by both big banks. Both big banks have branches and subsidiaries in more than 50 countries and are present in all major financial centres around the world. The UBS employs more than 65,000 people, 37% of whom are in the Americas, 37% in Switzerland, 16% in Europe and 10% in the Asia-Pacific region. The Credit Suisse Group employs around 47,000 people worldwide, more than half of whom are outside Switzerland. Being universal banks, the big banks maintain a tight network of domestic branches.

The big banks offer essentially all types of financial services, including notably investment banking (capital market transactions, securities trading, execution of money market transactions, financial engineering, securitised lending transactions as well as consulting in and conducting mergers and acquisitions).

Regional and saving banks

The regional and savings banks operate in similar business areas to the small cantonal banks. They focus their activities primarily on the savings and mortgage sectors. Around half of their liabilities and amounts due to customers take the form of savings deposits and investments; mortgage loans accounted for some three-quarters of assets.

At the end of 2008, 46 of the 75 regional and savings banks were RBA banks. RBA banks are independent institutions that co-operate with each other through the RBA Holding. This co-operation enables them to improve their cost structure, promotes professional expertise and affords a joint safety net and solidarity network.

The RBA group includes the Valiant banks and Clientis banks. Along with their joint services and competence centre Clientis AG, the approx. 20 Clientis banks form a contractual group and mutually co-ordinate their activities, notably in the areas of joint refinancing, group-wide processing, consistent branding and decentralised distribution.

Another approx. 30 regional banks, including four of the five largest regional banks in Switzerland, do not form part of the RBA Holding. Some of them have been acquired by other financial groups over time and are managed as independent business areas within those groups. These include Switzerland's largest regional bank, New Aargauer Bank, as a subsidiary of Credit Suisse Group, and the third-largest one, Baloise Bank SoBa, as a subsidiary of Bâloise Holding.

Raiffeisen banks

Raiffeisen banks are the only group of banks structured as co-operatives. They are associated in the Raiffeisen Switzerland co-operative. At the end of 2009, the Raiffeisen Group consisted of 350 independent, regionally rooted co-operative banks with a history that goes back more than a century. The group co-operates with Helvetia Group in the area of pension schemes and insurance, with Vontobel in the areas of trading and investment services, and with the Aduno Group in the area of consumer lending.

Raiffeisen Switzerland assumes the strategic management function for the entire Raiffeisen Group and is responsible for the group-wide risk diversification, liquidity and equity holding and refinancing. Furthermore, it co-ordinates group activities, creates favourable business conditions for the regional Raiffeisen banks and provides general consulting services and support to its members. Raiffeisen Switzerland also assumes the role of a central bank in providing treasury, trading and transaction services. This comprehensive support enables local Raiffeisen banks to concentrate on their core business – i.e. providing advice and selling banking services to their clients. Raiffeisen banks engage almost exclusively in domestic business and focus primarily on the interest income business.

Private banks

The 14 private bankers are among the oldest institutions in Switzerland. Most of them were founded in the 18th century. Private bankers primarily engage in asset management and banking services related thereto (underwriting and fiduciary business, securities trading), but conduct barely any interest income business.

Private bankers are structured as individual companies, joint companies or limited partnerships and their owners have unlimited private liability in respect of their own personal assets. If they do not solicit deposits from third parties, private bankers are not required to build statutory reserves or publish annual financial statements. However, they are subject to all other provisions of SBL, in particular requirements in respect of equity capital. Private bankers have been associated in the Swiss Private Bankers Association (SPBA) since 1934.

Foreign banks

Some 120 foreign-controlled banks are constituted under Swiss law as independent banks. They engage mainly in asset management for private customers (private banking) and in fund management and distribution. Some of these banks are world leaders in trade financing. Nearly 30 foreign bank branches are not structured as independent entities and are deemed part of their respective head office abroad, both in terms of their business activities and in legal terms. They engage primarily in capital market transactions.

All foreign-controlled banks and branches of foreign banks have been associated in the Association of Foreign Banks in Switzerland (AFBS) since 1972. Most foreign banks in Switzerland are branches or subsidiaries of banks based in Europe.

Other banks

This category of banks subsumes a variety of institutions: stock exchange and securities banks, institutions specialising in asset management, as well as institutions engaging in personal loans, instalment contracts and consumer credits. Stock exchange and securities banks include banks such as Julius Baer, Clariden Leu and Bank Sarasin. They are structured as private stock companies and engage primarily in offering asset management services to domestic and foreign clients. The Association of Swiss Commercial and Investment Banks represents the shared interests of stock exchange and securities banks.

4 | 2 Non-bank financial intermediaries

In addition to banks and their joint organisations and systems, the Swiss financial centre also accommodates non-bank financial intermediaries. The category of non-banks or quasi-banks subsumes an estimated multitude of more than 6,000 small and ultra-small companies, whose combined contribution to the value added of the financial services sector is, however, quite significant.

The heterogeneous group of quasi-banks may be classified into two groups by supervisory criteria: financial intermediaries that are subject to specific federal supervision, and those which are only subject to the Anti-Money Laundering Act. Financial intermediaries subject to specific federal supervision include in particular managers of Swiss investment funds (Investment Fund Law), life insurance companies (Insurance Supervision Law) and securities traders (Stock Exchange Law). Financial intermediaries subject only to the Anti-Money Laundering Act (AMLA) include all such entities that accept assets from third parties on a professional basis for safe custody or assist in the investment and transfer of assets (e.g. asset managers, brokers, exchange offices, lawyers, credit card companies). Two categories of non-bank financial intermediaries are described in more detail below.

Independent asset managers

Independent asset managers account for a large number of the quasi-banks. Many of them are associated in the Swiss Association of Asset Managers (SAAM) with more than 1,000 members.

An asset manager generally manages his clients' assets and provides financial and asset related consulting services. The asset manager acts by proxy on behalf and for the account of his clients, and the clients are not directly involved in individual investment decisions and their implementation. Clients' assets are held in accounts at custodian banks. Another characteristic of independent asset management is that the asset manager manages his clients' assets autonomously in line with his own principles, i.e. his decisions are not influenced by third parties. The asset manager is thus also free from restrictions in his choice of investment products.

An independent asset manager may either engage in standard asset management, or specialise in specific asset classes or investment products. Many independent asset managers offer a comprehensive range of wealth management services, including for instance tax consulting.

Independent asset managers are subject to a licence under the Anti-Money Laundering Act and have to be a member of an accredited anti-money laundering self-regulatory body. However, in other respects they are only moderately regulated by comparison with banks or securities dealers. This opens up possibilities for regulation arbitrage within the sector, leading to unwarranted distortions in competition. To better control the reputational risk for the Swiss financial centre, independent asset managers should be regulated more tightly, thus putting all asset managers on an equal footing. The responsibility for such tighter regulation is incumbent on FINMA and not on the banks.

PostFinance

PostFinance is another non-bank financial intermediary. As one of the Swiss Post's business areas, it is part of an independent federal institution. PostFinance engages primarily in domestic and international payment transactions. Its activities comprise increasingly also investments, pension schemes and lending. Moreover, PostFinance offers selected financial products such as investment funds and insurance policies, in co-operation with banks as its external partners. In this vein, PostFinance partners with Valiant Bank and Münchner Hypothekenbank in providing mortgages to finance home ownership for the customers' personal use. PostFinance co-operates with UBS as a custodian for investment funds.

The Swiss postal law and the postal ordinance provide the legal basis for the business activities of the Swiss Post and PostFinance. The postal ordinance allows the Post to offer services and products, which can be distributed to third parties via the Post's own infrastructure. On the basis of this legal provision, PostFinance may only offer directly financial services which are not subject to a FINMA licence. For the distribution of financial services that are subject to such a licence, PostFinance has to enter into a partnership with a bank or an insurance company. As an institution under public law, PostFinance has a special permission to accept customer deposits, pursuant to art. 1 SBL in conjunction with art. 3a para. 1 Banking Ordinance.

5 Wealth management

Wealth management is a mainstay of the Swiss financial centre. The professional expertise accumulated in a banking history that goes back more than two centuries, indisputably contributes to the excellent reputation of the Swiss financial centre and its position as the financial centre of choice on an international level. By now, most banks in Switzerland offer wealth management services to their private banking clients.

Wealth management services provided to domestic and foreign clients contribute significantly to the overall Swiss economic performance and account for almost half of the total output generated by banks in Switzerland: CHF 18.2 billion or 3.3% of gross domestic product in 2008.

5 1 Definition of wealth management

Generally speaking, wealth management is a financial service with varying degrees of customisation and complexity, delivered to private, corporate or institutional clients who own a certain volume of assets or wealth. Private banking categorises private individuals by the size of their wealth. For instance, private individuals with a large economic or financial potential (commonly referred to as "high net worth individuals" or HNWI) include persons whose disposable assets exceed CHF 1 million, excluding their main residence (see table below).

Typical segmentation of private banking customers (in CHF)

up to 250,000–500,000	250,000–500,000 up to 1–2 Mio.	1–2 up to 50 Mio.	50 Mio. and more
"Mass Affluent"	"Core Affluent"	"High Net Worth"	"Ultra High Net Worth"

Source: SBA

Institutional asset management focuses on the group of investors with professionally managed assets, such as insurance companies, pension funds, investment funds, foundations, banks and securities traders, public companies as well as industrial and other private companies. As the case may be, institutional asset management may also include special services such as cash management for corporate clients.

The management mandate of an investment advisor is different from that of an asset manager. By signing a discretionary asset management mandate, a client authorises the asset manager (agent) or the bank, to execute all transactions generally pertaining to asset management. An advisor, however, may only give advice to his clients, without actually carrying out any asset management transactions. The client manages his portfolio and decides on his own about the allocation of assets, based on the advice he receives from the investment advisor. In this case again, the deposit bank processes the transactions. The deposit bank's services include crediting interest, dividends and cashing coupons and capital repayments, processing corporate actions (e.g. capital increases, share splits, renaming) and executing securities and foreign exchange transactions.

For the purposes of this chapter, the agent is defined as a bank, although fiduciary companies, solicitors, independent asset managers or insurance companies may also provide investment advice and other asset management services to clients. According to the Swiss Insurance Association, private insurance companies engaging in life and non-life insurance as well as reinsurance in Switzerland accounted together for capital investments of about CHF 580 billion in 2008. However, a significant portion of these investments are deposited with or managed by intermediary banks. This also applies to independent wealth managers that manage assets on behalf of their clients who in turn have deposited these assets with a bank.

5 | 2 Volume of assets managed in Switzerland

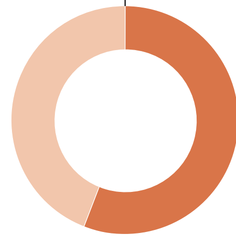
There is no standard definition of the term "assets under management" (AUM). According to the Swiss Financial Market Supervisory Authority (FINMA), assets under management comprise all invested assets held under a discretionary or advisory asset management mandate. Consequently, the following positions are deemed assets under management: securities held in client portfolios, fiduciary deposits, amounts due to clients in savings and investment accounts, as well as other amounts due to clients from time deposits.

At the end of 2008, the volume of assets managed by banks in Switzerland amounted to roughly CHF 5,400 billion. This volume recorded at the end of 2008 is allocated to the above positions as follows:

- The volume of securities positions measured at fair value amounted to CHF 4,012 billion. Institutional investors accounted for 60% of this volume, whereas private clients held 30% and corporate clients 10%. Foreign client portfolios accounted for 56% and domestic portfolios accounted for 44% of the total volume.
- Fiduciary deposits amounted to CHF 382 billion. These short-term investments are denominated predominantly in US dollars or euro. Banks issue them in their own name, but at the risk and for the account of the investor (principal). Most of the demand for fiduciary deposits comes from foreign clients (82% of reported fiduciary deposits).
- The two balance sheet items "liabilities to clients in savings and investment accounts" and "liabilities to clients in time deposits" amounted to CHF 358 billion and CHF 656 billion, respectively. Client deposits in savings and investment accounts also include the items vested benefits account (2nd pillar retirement fund) and restricted pension plans (3rd pillar). Around two-thirds of fixed-term deposits are attributable to foreign clients.

Assets managed in Switzerland

(in CHF billions) in %



Foreign clients (3,000) 56%
Domestic clients (2,400) 44%

The values represent rounded figures.
Source: SBA calculations, SNB

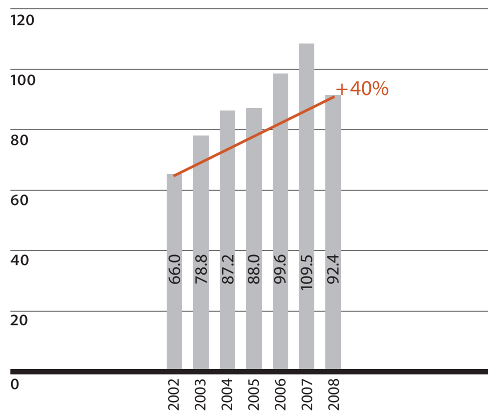
The basis of consolidation of investment portfolios and fiduciary deposits relevant for the statistics spans all banks and their branches in Switzerland, excluding their branches abroad, thus relating strictly to the Swiss banking centre. This does not apply to client assets that are included in the balance sheet, which cover also the banks' foreign branches. However, this difference is disregarded for the purposes of calculation.

5 | 3 Global wealth management

The potential of the wealth management business remains highly attractive. According to a study conducted by the Oliver Wyman consulting firm, only 50% of HNWI assets are entrusted to professional managers. Boston Consulting Group estimated the global volume of assets (institutional and private) at USD 92,400 billion in 2008. This reflects a decline by more than USD 17,000 billion from the prior year, primarily due to the sharp fall in markets.

Global wealth development

USD trillion



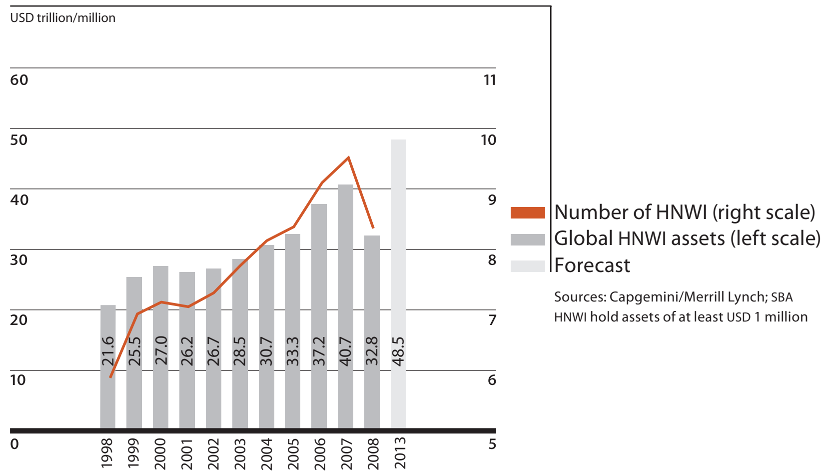
Growth
Global wealth

Source: Boston Consulting Group; SBA

This decline also affected the volume of assets owned by wealthy private individuals (HNWI) which shrank to a mere USD 32,800 billion at the end of 2008, having peaked at USD 40,700 billion in 2007. According to estimates by Merill Lynch and Capgemini, HNWI assets should grow by an average of 8.1% per annum and reach approximately USD 48,500 billion by 2013.

According to the same study by Merrill Lynch/Capgemini, there were 8.6 million HNWI in 2008, compared to 10.1 million in 2007, reflecting a decline by 15% from 2007. North America has the highest number of HNWI – by a narrow margin – with 2.7 million, followed by Europe with 2.6 million. Asia-Pacific saw the strongest decline in the number of HNWI (–22.3%), as did North America (–22.8%), whereas Latin America experienced the smallest decline by far (–6%). The emerging markets of China and Brazil still seem to have much potential. For instance, China surpassed the UK and is now ranking fourth among countries with the highest number of billionaires. Russia, on the other hand, suffered more severely from the financial crisis and lost a disproportionate amount of wealth in 2008.

Development of HNWI assets

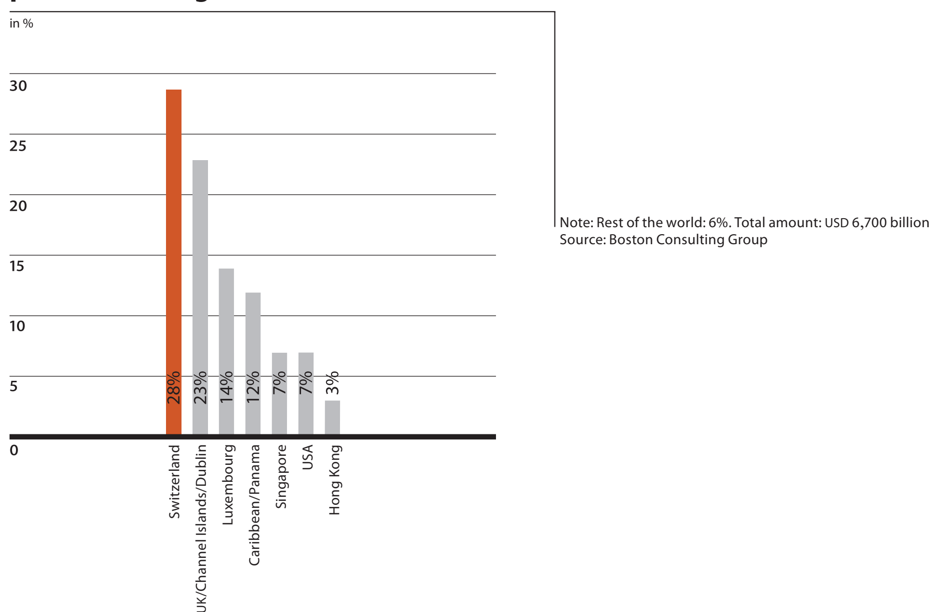


Sources: Capgemini/Merrill Lynch; SBA
HNWI hold assets of at least USD 1 million

The institutional asset management market was also affected by the crisis in 2008. The Boston Consulting Group estimates its total worldwide volume at USD 48,600 billion, reflecting a decline of some 18% from the prior year. According to a study conducted by Towers Watson, pension fund assets accounted for nearly USD 20,000 billion of total institutional assets under management.

Swiss banks are among the world's major wealth managers. According to the Boston Consulting Group, they are global leaders in cross-border (offshore) private banking with a market share of nearly one-third (28%).

Market shares in cross-border private banking (2008)



5 | 4 Products and services

The segmentation of wealth management clients determines the range of products and services offered. The standard investment process normally consists of analysing the client's financial situation, determining the strategy and asset allocation and monitoring the portfolio. Depending on a private client's particular wealth situation and financial requirements, the investment advice or portfolio management mandates typically also include financial and succession planning services, private and occupational retirement provisions, as well as the management of non-financial assets such as real estate. Asset management services for institutional investors include – apart from customised management mandates and fund management – other specialist consulting services such as asset liability management.

Following a temporary slump due to the financial crisis, demand for structured products is again rising. However, the trend goes towards transparent products that clients can readily understand. Clients are also increasingly interested in creating their own structured products. Special electronic platforms offer clients the possibility to compose products tailored to their own needs.

At the same time, investment preferences of private as well as institutional clients have changed. This was due to the emergence and success of passive management strategies based on index tracking. The handling of such investment instruments has become more flexible since the launch of Exchange Traded Funds (ETF) a few years ago. Index tracking yields returns consistent with the market at lower cost, because of minimal asset reallocation within the portfolio and lower cost of financial analysis.

5 | 5 Business models

The tradition of wealth management is firmly ingrained in Switzerland due, to a large extent, to the country's favourable political environment and monetary conditions. Moreover, Switzerland boasts a highly skilled workforce, which is well equipped to meet the growing demand for specialist knowledge in this field. Swiss banks have adopted a variety of business models and the Swiss world of banking is very diverse: A small number of global financial services providers exist side-by-side with a large number of niche players. Against this background, the business models upon which institutions base their growth plans (source and method of creating business volume, ways for generating revenues, etc.) – vary considerably depending in particular on the size of the respective player. The integrated business model is generally common to the biggest banks that engage in the full range of banking activities – from wealth management to business and retail banking.

Small banks adopt a business model specialising on a niche. Such a niche strategy involves a strong focus on the core business and the outsourcing of non-core activities, such as research or information technology. Interestingly, a new business model somewhere between the big banks and the niche players has emerged. This category of medium-sized banks has thus been added to the traditional classification into global financial services providers and niche players. The business model of medium-sized banks has established itself quite firmly over the past years.

There is a clear trend towards onshoring new assets, i.e. an increasing relocation of services to the clients' domiciles, notably in Asian emerging markets. Nevertheless, cross-border banking will remain in place, monetary and political stability being key aspects in this type of business.

Wealth management finds itself in a perpetual process of change. As a major player in this sector, the Swiss financial centre is no exception. Institutional asset management is becoming increasingly competitive, as investors' performance expectations and nimble mobility if these expectations are not met, fuel the competitive pressure on fee margins. Moreover, private banking has been subject to similar pressure as private clients have been becoming ever more sophisticated.

Given that all major financial centres as well as Switzerland have adopted article 26 of the OECD model agreement on double taxation (see chapter 9.2), the Swiss financial centre is not likely to suffer major adverse effects. The competitive parameters having been thus harmonised, Swiss success factors such as the stability of the Swiss currency will gain in importance. In future, the concept of tax compliant asset management will prevail.

6 | Retail banking in Switzerland

6 | 1 What is retail banking?

Retail banking generally consists of basic banking services provided to the broad public. It comprises a standardised and readily understood range of products designed for individuals with maximum net assets of CHF 250,000 to 1 million, depending on the bank. The service offer includes account management, payments, credit cards, simple investment products as well as mortgages and loans. All banks in Switzerland offer these services, except banks that specialise exclusively in private banking and investment banking. Retail banking is offered through various distribution channels, including the banks' own branches, the ATM network, e-banking and by telephone.

Compared to other business areas such as private or business banking, the volume of individual retail banking transactions is relatively small, but the number of transactions to be processed is large. Consequently, retail banking is based on highly standardised products and services rather than tailored solutions. Business volume is mainly based on interest spreads, which are traditionally the key source of revenues for a retail bank. Retail business usually serves as a basis for building long-term client relationships, is often used as a platform for cross-selling business and paves the way to more sophisticated banking services.

6 | 2 Significance for the national economy

Retail banking is a business of great relevance in Switzerland. A large number of banks and banking groups engage mainly or exclusively in this type of banking business. Retail banking is part of the traditional business for most cantonal banks, which generate about half of their earnings from interest spreads. The economic output of Raiffeisen and regional banks is based almost exclusively on retail business. The Swiss big banks are also strongly committed to domestic retail banking.

In 2008, the gross economic output of the banking sector accounted for 7.6% of the total economic output in Switzerland, with retail banking alone contributing around 2.8% or CHF 15 billion to the total national economic output – and accounting for 36% of the banking sector output. At the end of 2008, 136,000 persons were employed in the banking sector, of which 60,000 in retail banking.

6 | 3 Selected retail banking products

Savings and personal accounts

Saving money being the primary objective of a savings account, monthly withdrawals and general services are limited for this type of account. In return, interest rates on savings accounts are distinctly higher compared to other accounts. The personal account is used primarily for effecting payment transactions and crediting salaries or retirement pension. While monthly withdrawal limits are generously set, interest rates on deposits are lower than on savings accounts.

Since January 2010, interest income up to CHF 200 on savings and personal accounts has been exempt from withholding tax.

The preferential claim in bankruptcy is an important safety aspect in savings and personal accounts. In the event of a bank's failure, deposits up to CHF 100,000 per client are treated preferentially. If the bank's liquidity is insufficient to satisfy such preferential claims, deposit assurance is provided by the Swiss Banks' and Securities Dealers' Depositor Protection Association (see chapter 8).

Consumer lending and mortgages

The term consumer credit (also known as private or small loan) stands for loans granted to private individuals for non-business purposes and without the cover of pledged collateral (such as assets). Due to the higher risk for the bank, interest rates on consumer credits are relatively high. Consumer credits usually have to be repaid within 12 to 60 months.

The Swiss association for central consumer credit information management estimated the volume of outstanding consumer credits in Switzerland at CHF 7.9 billion at the end of 2008. That corresponds to a per capita debt of approx. CHF 1,000, which is relatively low by international comparison.

A mortgage is a long-term loan secured by the pledge of a property. Before granting a mortgage, providers evaluate the real estate property and examine the creditworthiness of the applicant. Mortgage applicants are usually required to contribute 20% of equity. Three types of mortgage are typically offered in Switzerland: fixed-rate mortgage, variable-rate mortgage and money market mortgage.

- The maturity and interest rate of a fixed-rate mortgage are defined at the outset. Maturities normally range between one and ten years, with medium-term maturities of four to six being most common.
- The interest rate of variable-rate mortgages is aligned with capital market rates. This type of mortgage is attractive in times when interest rates are declining. Variable-rate mortgages usually have no fixed maturity and can be terminated at any time subject to a six-month notice period.
- The interest rate of money market mortgages is aligned with the LIBOR money market rate and contains a mark-up calculated on the basis of the borrower's creditworthiness. The maturity of a money market mortgage is usually fixed at one, three, six or 12 months and the interest rate is adjusted periodically. Being closely correlated with the market, the interest rate may be highly volatile. Clients can protect themselves against excessive exposure to interest rate risk by setting an upside limit (cap).

According to Swiss National Bank statistics, the aggregate amount of domestic mortgages issued by Swiss banks amounted to CHF 689 billion at the end of 2008, with fixed-rate mortgages accounting for a dominating part of this total. The average mortgage debt per resident thus amounted to approx. CHF 89,000, which is among the highest figures worldwide. Mortgage lending grew by an average of approx. 4% per annum between the years 2000 and 2008. This mortgage growth rate is also an important growth factor for the primary and secondary construction industry.

Investment products

Private retail banking clients can choose from a wide range of investment products, including:

- Investment funds: Investment funds consolidate the investments of many individual investors and invest in a variety of instruments and asset classes, along the principle of risk diversification.
- Investment fund account: An account designed for holding and managing investments in fund units, without maturity or fixed payments in.
- Fixed-term and fiduciary deposits: Amounts that the client places at the bank's disposal for a defined period of time and at a specified interest rate. Banks accept fixed-term deposits as of a minimum amount (usually CHF 100,000) for a period of one to twelve months. The borrower for fixed-term deposits is a Swiss bank, whereas fiduciary deposits are invested with a foreign bank and are exempt from withholding tax.
- Bonds: Securitised debt obligations yielding a fixed interest. Some bonds have a floating interest rate or none at all. Barring few exceptions, bonds have a medium to long-term maturity.
- Cash bonds: Short to medium term debt obligations with maturities ranging from one to ten years. Unlike traditional bonds, cash bonds are not available only during a specific subscription period, but are issued continually by the banks.

Payments

Payments include all transfers of means of payment between economic agents. One of the banks' core functions is to enable the simple execution of payment transactions. To this end, most banks offer the following retail banking products:

- Credit and debit cards for daily consumer use.
- Payment instructions to transfer money or make payments from home via mail, e-banking or Paynet.
- Foreign payment instructions for one-off invoice settlement abroad in Swiss francs or other currencies (SWIFT).
- Standing orders for recurring payments of a fixed amount.
- Direct debit orders for recurring payments of varying amounts.

Retirement provisions

Most banks offer a range of standardised retirement products, which are tax privileged or tax free. Such typical products include:

- Retirement savings plan: Linked savings plan in pillar 3a, with tax privileges. The annual contributions up to a specified maximum amount may be deducted from taxable income (2010: CHF 6,566 for employed individuals). In principle, the retirement savings plan is a blocked account.
- Occupational mobility account in pillar 2: Interim account for pension plan credits, which are deposited in line with provisions under LPP (Federal Law on Occupational Benefit Plans concerning Old-Age, Survivors' and Invalidity).

Clients who are prepared to bear the financial market risk, may combine these retirement products with an investment fund account and benefit from potentially higher returns.

6 | 4 Retail banking outlook

The retail banking market in Switzerland is saturated, highly competitive and characterised by low growth. Higher earnings can be obtained almost exclusively by increasing the sales volume or by reducing costs. Therefore, efforts have to be made to streamline processes and enhance operational efficiency in order to further increase profitability. According to a study conducted by the Banking & Finance Institute at the Zurich University of Applied Sciences, this will accelerate the trend towards a segregation of the value chain. Once they are split up, the individual components of the value chain can be outsourced. Infrastructure units (e.g. payments) are usually the first to be outsourced, followed by application units (e.g. securities administration), and ultimately entire processes (e.g. product development). This trend will also entail an increasing degree of professional specialisation.

Financial industry earnings declined noticeably as a result of the financial market crisis. Swiss retail banking business proved quite resilient in this environment. However, this area of banking is also unlikely to be stimulated into growth as and when the economy recovers.

7 | Selected banking instruments and activities

7 | 1 Structured products

Structured products are investment instruments constructed (structured) from several elements, combining traditional investments such as equities and bonds with derivatives.

The combination of several components into a structured product has three key advantages for investors:

- Structured products enable profitable investment, regardless of the prevailing market outlook – be it that markets are expected to rise, fall or move sideways.
- An appropriate product can be structured for any given risk profile: for conservative investors aiming to preserve their assets, as well as for investors who are prepared to enter into more substantial risk.
- Investors in structured products have access to a great variety of underlying investment instruments and regions, even for small amounts. Up to recent years, such opportunities were reserved to large investors.

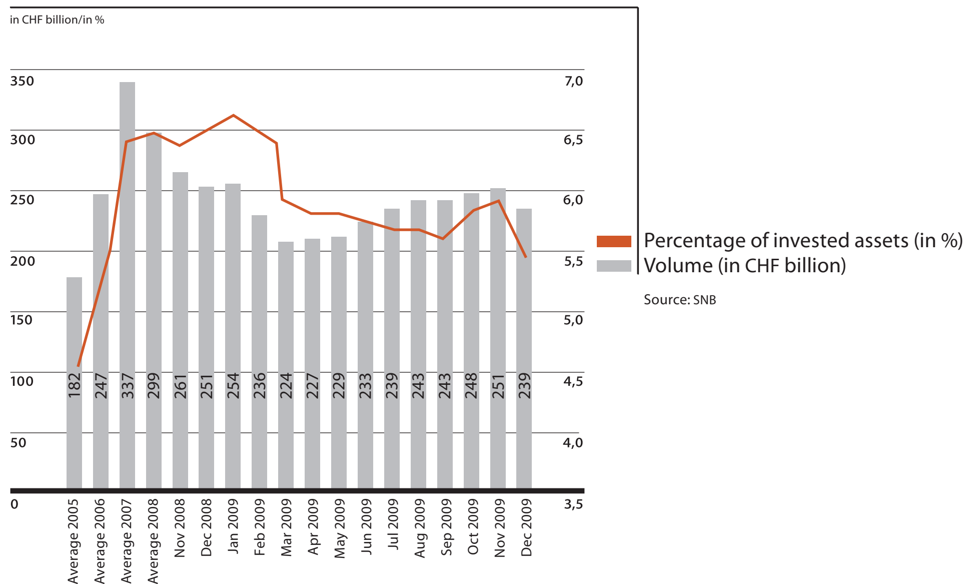
Structured products are primarily designed to be more attractive for investors than a direct investment in the underlying instruments.

Structured products have the legal status of debt securities. This implies that in the event of the issuer's bankruptcy investors lose the money they invested in the structured product. That was the case, for instance, when the US investment bank Lehman Brothers collapsed. Swiss issuers of structured products and the Swiss stock exchange then jointly launched a globally unique loss protection for structured products. By depositing securities with the stock exchange, the risk of an issuer's default is now virtually excluded.

Sometimes, structured products are referred to as speculation instruments. However, they are in fact designed to provide protection against risk. For example, a mechanical engineering company could use structured products as a hedge against rising commodity prices or foreign exchange movements. Private and institutional investors such as pension funds can use structured products in the same way.

At the end of 2009, structured product investments in Switzerland amounted to CHF 240 billion. Switzerland is thus one of the world's major structured products markets.

Development of structured products held in custody accounts



As an investment category, structured products are still quite new and the various possibilities of their use – be it in private asset management or by companies – are yet to be fully explored. Moreover, structured products can be used to respond to the growing demand for customised investment solutions. In the wake of the collapse of the Lehman Brothers investment bank in the autumn of 2008, the demand for structured products plunged. However, the market rallied in 2009 and the Swiss market for structured products is expected to grow over the coming years.

7 | 2 Collective investment schemes

Collective investment schemes are financial products that combine the invested assets of various investors to map a portfolio where the interests of all investors are represented equally. Each investor is entitled to a share in the net asset value (NAV) of the collective investment scheme in proportion to the assets he invested in the scheme. The fund manager calculates the NAV at regular intervals and publishes it in the official gazettes as approved by the Swiss Financial Market Supervisory Authority (FINMA). Collective investment schemes pursue an investment strategy as defined by the statutory documents (prospectus and investment fund agreement). Some investment schemes, for instance, invest exclusively in Swiss equities. Being highly diversified, collective investment schemes are designed for the public and suited for investing relatively small amounts indirectly in a whole range of different securities.

Collective investment schemes established under Swiss law, as well as publicly offered foreign collective investment schemes, are subject to a FINMA license for public offer and distribution. In Switzerland, as in most other countries, collective investment schemes are tightly regulated with a view to protecting small investors. The distribution of collective investment schemes in Switzerland is governed by a formal law (Collective Investment Schemes Act, CISA), an ordinance (Collective Investment Schemes Ordinance, CISO) as well as the FINMA ordinance on collective investment schemes (Collective Investment Schemes Ordinance of the Swiss Financial Market Supervisory Authority, CISO-FINMA). This range of regulatory pieces is complemented by several sets of guidelines issued by FINMA as well as the Swiss Funds Association's (SFA) self-regulatory provisions. Collec-

tive investment schemes, which are not offered to the public but reserved to professional investors in line with art. 10, para. 3 CISA, are not always supervised by FINMA. As is the case in most jurisdictions, the Swiss CISA takes a discriminate approach to investor protection, aligning the degree of protection with the requirements of defined categories of investors (e.g. banks, insurance companies or pension funds).

The value chain of collective investment schemes consists of three elements: Fund management, asset management and distribution. Fund management focuses primarily on calculating the net asset value and dealing with supervisory authorities (FINMA) and auditors, whereas asset management is responsible for asset allocation within the portfolio in line with the mandate defined by the fund manager, pursuant to art. 31 CISA. Last but not least, the distribution unit markets the capital investment schemes to clients. In Switzerland, most capital investment schemes are offered through banks, although securities dealers, insurance companies and all other licensed institutions assume an increasingly important role. Whatever the distribution channel, a custodian bank is always involved in the agreement between an investor and a fund manager. The bank is in charge of physical custody and management of the deposits and assumes certain statutory control functions.

According to SNB monthly statistics, collective investment schemes accounted for 30% of the total securities investments held by Swiss and foreign clients at the end of 2009, and are thus the largest asset class in securities portfolios – followed by equities, bonds and structured products.

7 | 3 Commodity trade finance

Commodity trade finance (CTF) refers to short-term, earmarked loans to global trading companies. Such loans are usually granted to fund a specific transaction. Traders use CTF to pay on delivery for the goods purchased for export. Such goods are mainly bulks of commodities or semi-finished products such as crude oil, base metals or agricultural products. The bank loan is also used to cover logistics expenses related directly to the trading transaction, including shipment, insurance premiums, storage as well as the cost of currency and pricing hedges. Traders sell the purchased goods on to end users, wholesalers or brokers immediately on delivery or at a later date.

The purchase price for the goods is usually due to the vendor before any proceeds can be realised from a re-sale of these goods. The banks' role is mainly to bridge the trader's cash flow gap, and to process, align and monitor the flow of payments and goods by providing the appropriate tools such as letters of credit, bank guarantees, etc.

Over the past years, Switzerland has evolved into one of the world's major commodities trading centres. Most of the Swiss commodities trading business (95%) is concentrated in the Lake Geneva region (Geneva and Vaud), as well as in Lugano and the canton of Zug. According to the Geneva Trading and Shipping Association (GTSA), around 12,000 people are employed in the commodities trading industry in Switzerland.

7 | 4 Fiduciary business

Fiduciary business comprises investments, loans and participations the bank holds or grants in its own name, but at the risk and for the account of a client by written agreement. The mandating client assumes the currency, transfer and price risk as well as the risk of default, but is in return entitled to all gains from fiduciary transactions. The bank charges the client with a commission for its services.

At the end of 2008, the total volume of fiduciary investments amounted to CHF 382 billion. More than 80% of fiduciary money originated from abroad and in turn banks invested almost 100% of fiduciary deposits outside Switzerland. More than half of these investments were made in US dollars and one-third in euro. The Swiss franc played only a minor role, accounting for some 7%.

7 | 5 Investment banking

Investment banking includes, among other services, the issuing business as well as mergers and acquisitions (M&A). The issuing business comprises for instance initial public offerings (IPO), capital increases or bond issues. Investment banks usually play an important role in M&A transactions. They assess the value of companies, provide the required know-how and are involved in the entire M&A process.

In addition to these two types of services, investment banks also engage in securities and foreign exchange trading, as well as money market and treasury transactions. Financial product innovation is often attributed to financial engineering, which is usually an investment bank unit that combines individual financial products to meet specific investor needs.

These functions require specialist skills, but they also generate a substantial economic output. In 2008, investment banking contributed some CHF 3.6 billion to the Swiss economic output and gave employment to nearly 10,000 people in Switzerland. However, in other countries or financial centres such as London or New York, the share of economic output contributed by investment banks is even greater.

London is currently the undisputed investment banking centre of Europe, the other major centre being New York. Given that investment banking thrives primarily on economies of scale (i.e. large volumes), it is only natural that the Swiss domestic market for such services is limited. The decline in investment banks' earnings due to the financial market turmoil had a negative impact particularly in Anglo-Saxon countries, and forced investment banks in the US to turn to the government for support. In order to qualify for public rescue funds, they had to give up their status as independent investment banks. In the past, investment banks were only subject to light supervision and refinanced their business generally with short-term borrowing. However, short-term loans proved difficult to obtain during the financial crisis, because interbank lending had come to a grinding halt due to a lack of mutual trust and confidence among the banks.

7 | 6 Alternative investments

Private equity and hedge funds are the most common types of alternative investments. These two instruments are briefly described below.

Private equity

Private equity companies raise their funds (equity capital or equity-like funds) from private and institutional investors. Private equity investments are designed for professional investors and are not offered to the public. The funds thus raised are invested in unlisted companies. Private equity funding being costly as a rule, companies only resort to it if they cannot tap any other source of capital. There are various types of private equity investment.

One possibility would be to invest in newly established or yet to be established companies. This relatively risky type of private equity is called venture capital. The classical type invests in companies that have already been established. On principle, the investment goes to companies with a positive risk-return profile. Venture capital is usually granted with a maturity of three to ten years and in addition to the financial element it also comprises a management support and consulting offer.

Buyout is another possibility. Management buyout is a specific form of this type of private equity where a company's existing management buys the company, usually with the assistance of private equity companies. Private equity investments are illiquid by nature, because they are not traded on a regulated market and it is therefore more difficult to find buyers for this type of investment.

The Collective Investment Schemes Act (CISA) came into effect in 2007, introducing a new private equity fund structure in the form of private limited partnerships for collective investment schemes (Kommanditgesellschaft für kollektive Kapitalanlagen, KgK). Compared to other legal forms, limited partnerships have a simpler structure and bring tax advantages to the investor. KgK are subject to FINMA licence and supervision.

Hedge funds

A hedge fund is a private investment fund usually offered in a private placement to a limited circle of investors. With a usual minimum investment of USD 250,000, this fund holds no appeal for small investors. There is no standard definition for the term "hedge fund", but this instrument is generally characterised by a clearly specified investment strategy.

Hedge funds are subject to minimal or no regulation, thus leaving a wide scope of investment possibilities. Consequently, hedge funds can, for example, sell short and thus earn money even when stock prices are declining. Hedge funds may also use borrowed capital or derivatives to achieve a leverage effect. This strategy is only profitable as long as the return on the borrowed capital is higher than the cost of leverage.

Due to the financial crisis a pressure built up on the hedge funds industry. Some fund managers were forced to sell their portfolio positions at unfavourable terms, because their clients were redeeming their fund units, i.e. withdrawing money from the fund. This was happening despite the liquidity protection that many fund managers had put in place, such as limiting maximum cash outflows to 10% of the fund assets per period (usually per quarter). As a result, many hedge fund managers had to close down their funds due to poor performance and massive withdrawals.

In order to prevent liquidity shortages from recurring in future crises, FINMA made a landmark decision on 23rd January 2009 to allow so-called side pockets. During spells of short liquidity, hedge funds may spin off illiquid investments into a separate vehicle – a side pocket – and suspend the investors' redemption rights with regard to such illiquid assets. Side pockets are subject to FINMA approval and the collective investor rights have to remain warranted. Products held in a side pocket are excluded from subscription offers.

Tighter regulation of alternative investments in general and hedge funds in particular is currently being discussed. The debate was triggered by the fact that hedge funds can amplify market excesses, for example by engaging in short selling, and could under certain circumstances compound a crisis. It is too early to gauge the effect that tighter regulation might have on this business area.

8 | Financial market regulation and supervision

8 | 1 Basic information

In Switzerland, as well as internationally, the banking and finance industry is among the tightest regulated sectors of the economy. One reason for such tight regulation is client protection; the other, even more compelling reason is the vital importance to maintain the stability of the overall economic system.

System stability generally means that the financial system functions properly and efficiently. This system stability is an important precondition for a functional and therefore growing economy.

Systemic crises that jeopardise this very system stability can be caused in various ways. Such crises can be triggered by chain reactions or domino effects among market participants (e.g. on the interbank market), or by a phenomenon like a shock reaction (e.g. to interest rate risks, foreign exchange risks, economic risks), or a reaction to special risk inherent in important institutions. Since systemic risks can arise for many different reasons, the task of protecting the functional integrity of the financial system is highly complex.

Regulation entails setting up rules to influence the behaviour of companies, be it in the form of incentives or by decreeing instructions and prohibitions. Regulation in terms of setting up rules also includes supervision and monitoring.

Micro- and macro-prudential supervision

In simple terms, before the financial crisis broke out in 2007, it was generally assumed that the entire banking system was safe and system stability was warranted, as long as every individual bank was safe and had a sufficient equity cushion. In retrospect, this assumption has proved delusive. To cover systemic risks by regulation, macro-prudential regulation has to be distinguished from micro-prudential regulation. In other words, micro-prudential regulation has to be complemented by macro-prudential regulation.

Micro-prudential supervision focuses on risks inherent in individual companies, whereas macro-prudential supervision focuses on the stability of the entire financial system. In Switzerland, the responsibility of supervision is shared between the Swiss National Bank (SNB) and the Swiss Financial Markets Supervisory Authority (FINMA). FINMA is responsible for micro-prudential supervision of banks and financial companies, whereas SNB supervises the financial system at the macro level.

However, combining micro-prudential with macro-prudential regulation is far more complex than the mere supervision of individual companies. Increasing the effectiveness of regulation entails coping with higher complexity and its inherent adverse aspects.

Precautionary and curative regulation

There is a distinction between precautionary and curative regulation. Precautionary regulation is designed to avert the need for intervention in the first place (risk control). Capital requirements are a good example for precautionary regulation. The equity cushion is designed to prevent banks from becoming insolvent and collapsing as a result. Curative (therapeutic) regulation comes to bear only once certain risks have already surfaced (damage control). A typical example of curative regulation would be the bank deposit protection, which is designed to compensate bank clients for any loss they may suffer.

Furthermore, there is a distinction between discretionary and rule-based regulation. The benefit of rule-based regulation is that once a rule has been established, it stipulates an automatic and predictable reaction by the regulatory body. It is thus resilient against political pressure and stabilises expectations as well as the banks' behaviour. The difficulty in devising such rules is that potential problems have to be known in advance, which is difficult to achieve in practice.

Discretionary (optional) intervention can be applied as and when the supervisory authority becomes aware of processes that might lead to a crisis. However, the flexible implementation of discretionary regulation leaves the supervised companies in vagueness about the regulatory implications, thus diminishing the companies' ability to plan ahead reliably.

Regulatory effect

Stronger system stability usually entails higher cost of regulation, which creates an optimisation problem in practice. The dilemma lies primarily in the fact that the actual benefit of a regulatory measure is usually hard to quantify. It may be safely argued, though, that regulation adds to the cost of business or debt-financed investment. At the same time, regulation can have a distorting effect or place an unequal burden on the various categories of banks. That leads to a situation where the cost of regulation is shared by all, irrespective of who caused it.

Consequently, a change in regulatory provisions needs to be evaluated by deliberating its benefits and drawbacks systematically. The revision of individual regulatory instruments should not be viewed separately. The effects of regulatory reactions need to be assessed holistically, taking into account any correlations, interaction and cumulative effects.

With the "Swiss finish", regulation in Switzerland already exceeds internationally required regulatory standards in many ways. This applies in particular to statutory capital requirements or remuneration schemes. As stipulated in art. 7 para. 2 of the Federal Act on the Swiss Financial Market Supervisory Authority, regulation has to be viewed in terms of its effect on innovation capacity and international competitiveness of the Swiss financial centre. Against the backdrop of the diversity within the Swiss banking sector, due attention needs to be paid to differentiated regulation – one size does not fit all.

8 | 2 Types of regulation

Regulation imposed by the legislator and authorities

Regulatory rules can be passed at all legislative levels (constitution, laws, ordinances and circulars). Pursuant to art. 94 of the Swiss federal constitution, the legislator has to observe the principle of economic freedom, create favourable conditions for the private sector, and conduct an economic policy that promotes competition.

Relevant financial market regulatory laws include the Federal act on the Swiss Financial Market Supervisory Authority (FINMAG), Swiss Banking Law (SBL), Stock Exchange Law (SESTA), Investment Fund Law (IFL) and the Anti-Money Laundering Act (AMLA). These laws define the principles governing their respective domains within the statutory economic system. Such principles include licence requirements and the permanent supervision of banks, securities dealers, stock exchanges, insurance companies and collective investment schemes. FINMA is responsible for licensing and regular supervision. Companies are entitled to a licence as long as they comply with statutory requirements; if this is no longer the case, an existing licence can be withdrawn and the company would thus be forced into liquidation. Laws are prepared and passed as and when political authorities (Federal Council, Federal Assembly) deem them necessary. The National Bank Act (NBA) is also highly relevant for the financial industry. It governs the responsibilities of the Swiss National Bank (SNB) as a central bank and supervisory authority for payment and securities transaction systems. The SNB is responsible in particular for maintaining the system stability. In exceptional circumstances, it may act as a lender of last resort and provide liquidity to support a bank. The Competition law (Cartel Act) falls into the domain of the Competition Commission and applies to the financial sector as well as to other industries.

Ordinances such as the Foreign Banks Ordinance, Capital Adequacy Ordinance or Bank Bankruptcy Ordinance contain detailed instructions related to the respective law, which normally outlines only the principles of the regulation. Ordinances are generally issued by the Federal Council; however, on specific authorisation by the legislator, FINMA and the SNB may also pass ordinances.

Regulatory circulars form the lowest level of supervisory regulation (not to be confused with self-regulation). The supervisory authority uses the circulars to explain how the financial market laws are to be implemented. The nature of such circulars is not as directly binding as a decree, which imposes responsibilities or confers rights on the supervised companies in a general and abstract manner. Hence, a supervised company may challenge a circular in court if the company deems it contrary to law or inappropriate. Circulars are thus less deemed as ordinances in a strict sense, but rather as announcements of supervisory practice with regard to a specific subject (e.g. FINMA circulars on outsourcing or remuneration schemes). In reality, though, a circular may resemble an ordinance quite strongly.

Stakeholders are consulted before any new regulatory items are introduced at any level of the legal system, thus allowing stakeholders to weigh in their interests as well as their expertise. Swiss financial market regulation is therefore very closely related to practical day-to-day business.

Auditors as an extension of FINMA

The Swiss Financial Market Supervisory Authority (FINMA) as a public supervisory authority shares the responsibility of supervising the Swiss banking industry with private auditing companies authorised by FINMA. With this system of shared supervision, auditing firms conduct the statutory audits on site, while FINMA takes a superintendant role and reserves the right to impose any sanctions.

The contractual relationship between the auditing firms authorised by FINMA, and the companies they audit is based on private law, whereas the content of supervisory activity is defined mainly under public law. In their capacity as the "extended arm" of the public supervisory authority, auditing firms supervise the companies directly by conducting regular annual audits. They perform a public function without having any sovereign power. However, auditing firms have to report the results of their audits to FINMA. The companies under supervision incur the costs of audit in full.

Regular audits conducted by auditing firms are an important instrument for protecting bank clients. Statutory audits have to be conducted by Swiss auditing firms or fiduciary companies. Such companies need to have the necessary skills and competence and they have to be independent from the mandating company. They are subject to FINMA supervision and authorisation.

Every year, auditing firms audit the annual financial statements to ensure that the format and content of the statements are in line with the regulatory and statutory requirements, that the companies comply with supervisory requirements (laws, ordinances, etc.) and continue to meet all licensing conditions.

The audit report is addressed to the company's board of directors as the governing body in charge of supervision and control, or the bank council in the case of cantonal banks. The company's governing body forwards the report to FINMA. The audit report provides FINMA with an in-depth view of a bank's overall shape. Moreover, FINMA may require the bank as well as its auditors to submit additional information and documents, and impose extraordinary audits.

Self-regulation and code of conduct

Financial market legislation consists of legal frameworks such as the banking, stock exchange and anti-money laundering laws as minimum standards, which leave scope for specification by the code of conduct. The code of conduct forms a traditional part of the banks' and securities traders' system of self-regulation, and plays an important role in the Swiss banking sector. The essential advantages of self-regulation lie in the fact that it relates closely to business practice, is established by regulators with professional expertise and is therefore more readily accepted and implemented. Other positive aspects include the flexibility of self-regulation and the time-efficiency in passing new regulation or amending existing rules.

There are two types of self-regulation: the free or autonomous self-regulation, which is accepted as a minimum standard, and the mandatory self-regulation. The free or autonomous self-regulation is based on the principle of private autonomy and is usually designed without public interference. Based on the Federal Act on the Swiss Financial Market Supervisory Authority, FINMA may also recognise self-regulation as a minimum standard (see FINMA Circular 2008/10 "Self-regulation as a minimum standard").

The Swiss Bankers Association (SBA) passes the self-regulation or code of conduct and FINMA recognises and enforces the code of conduct as a minimum supervisory standard. This sovereign enforcement ensures that the SBA code of conduct is generally binding for all banks in Switzerland. For the purposes of FINMA, compliance with the code of conduct is equal to the "assurance of proper business conduct" and thus forms part of the banking licence requirements that financial services companies have to fulfil at all times. This private code of conduct thus ranks in fact as a public standard and any infringements are therefore subject to sanctions under the banking law. The FINMA Circular "Self-regulation as a minimum standard" contains an annex with a list of currently recognised self-regulation standards.

Mandatory self-regulation is based on a statutory mandate to establish self-regulatory rules governing a specific topic. Such statutory self-regulation mandates include, for example, art. 37h of the Swiss Banking Law (bank deposit protection), or art. 25 of the Anti-Money Laundering Act (specification of due diligence).

Overview of the key codes of conduct issued by the SBA

Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB).
Banks' duty to know their clients, verify the identity of beneficiaries and refrain from providing assistance in tax evasion or illegal export of capital.

Directives on the Independence of Financial Research.
Restriction of conflicts of interests in the area of financial research.

Recommendations for Business Continuity Management.
Ensuring continuity or timely recovery of vital business functions in the event of an internal or external crisis.

Guidelines on informing investors about structured products.
Banks' duty to issue a prospectus for publicly offered structured products.

Agreement on Deposit Protection.
Protection of a bank's creditors (depositors) by expedient repayment of their deposits in the event of a bank's collapse.

Code of Conduct for Securities Dealers.
Basic rules for all securities dealers governed by the banking law, specifying their duty with regard to information, due diligence as well as trust and confidence.

Guidelines for the Management of Country Risk.
Minimum requirements for banks with regard to creating adequate internal structures for defining country risk.

Portfolio Management Guidelines.
Basic principles of client asset management, designed to maintain and foster the high quality of portfolio management.

Guidelines of the SBA on the treatment of dormant accounts.
Preventing accounts from becoming dormant, restoring client contact, banks' duties with regard to dormant accounts, search procedures.

Allocation directives on the New Issues Market.
Directives governing the allocation of equity-related securities offered by way of public offering.

Alignment of regulatory standards

Financial markets have recently seen a growing trend towards (international) alignment of regulatory standards. This relates not only to the capital requirements under Basel II, but also to efforts taken by various other institutions and committees to regulate banks tighter and above all in an internationally closer coordinated manner.

The **Basel Committee on Banking Supervision (BCBS)** is responsible for defining the capital requirements for banks (Basel II) at a global regulatory level. In the medium term, the Committee plans to raise the required total amount of equity up from the level currently required under the prevailing Basel II provisions. Additionally, the Basel Committee aims to reduce the procyclicality of Basel II. This amplifying effect of Basel II was criticised particularly in the context of the financial crisis that erupted in 2007.

In December 2009, the Basel Committee published its proposals for intensified regulation to this effect, in the form of two consultation papers: "Strengthening the resilience of the banking sector" and "International framework for liquidity risk measurement, standards and monitoring". These papers contain measures for enhancing the quality of capital, proposals for stronger collateralisation of counterparty risk and – for system relevant banks – the introduction of a leverage ratio as well as additional liquidity standards. These proposed measures are to be introduced by the end of 2012.

The Swiss Bankers Association acknowledges the need for enhanced capital requirements and liquidity standards. However, it is imperative that the respective measures be implemented on the basis of an unrestricted level playing field. Moreover, the effects of any regulatory amendments should be closely examined in a quantitative impact study, and the cumulative effects on the real economy should be assessed. In addition to these analyses, a generous transition period will need to be allowed with regard to the implementation of these immensely complex adjustments.

The **International Organization of Securities Commissions (IOSCO)** was established in 1974 as an association of national securities and stock exchange commissions. The primary objectives of IOSCO comprise investor protection, ensuring fair, efficient and transparent markets, preventing systemic risk, promoting international cooperation, and establishing consistent market supervision standards.

In June 2009, IOSCO released six principles of hedge fund regulation, covering among other things the registration of hedge funds and their managers as well as the assessment of potential systemic risks.

In April 2009, the G20 announced the upgrading of the Financial Stability Forum (FSF) to **Financial Stability Board (FSB)**. In addition to promoting the financial stability, the FSB was established with the specific purpose of developing tighter regulation and supervision of the financial system. The mandate of FSB has thereby been extended with a view to enhancing the stability of the financial system and identifying macro-economic crises. Moreover, the membership of FSB has been expanded and includes now representatives of all G20 countries. Switzerland holds two seats on the FSB.

In April 2009, FSB (FSF, at the time) published the "Financial Stability Forum Recommendations and Principles to Strengthen Financial Systems". These recommendations address the topics of procyclicality in the financial system, compensation schemes and international co-operation and co-ordination. The report contains 67 recommendations addressed to the relevant national authorities and other market participants.

At the European level, the **European Commission** is a single institution of its kind within the political system of the European Union (EU). In its capacity as a supranational EU body, it represents and protects the overall interests of the European Union. At the end of September 2009, the European Commission adopted a set of draft legislation aimed at considerably tightening supervision in Europe. With the new regulatory provisions, the European Systemic Risk Board (ESRB) was appointed and the European System of Financial Supervisors was established. As this publication went to press, these proposals were still being discussed at the European Council and Parliament.

- The **European Systemic Risk Board (ESRB)** monitors and evaluates the risks to the financial system stability (macro-supervision). It issues early warnings with regard to systemic risks and recommends specific countermeasures where appropriate.
- The **European System of Financial Supervisors (ESFS)** supervises individual financial companies (micro-supervision). ESFS is a network of national supervisory authorities, which co-operate with the new European supervisory authorities. Other authorities to be established include the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

International alignment of supervision

Against the background of growing integration of financial markets and global financial companies, the variety of supervisory powers can prove obstructive for financial companies. Given the appropriate conditions, it may therefore make sense to transfer certain supervisory decision-making powers from equal national supervisory authorities to one lead supervisor elected from the group of these national supervisory authorities. Financial supervision can thus be exercised in a more efficient and effective manner.

The Swiss big banks have already had some experience in this respect within the conglomerate supervision concept: As the big banks' home regulator, FINMA meets regularly with the FSA (British Financial Services Authority) and the New York Fed (Federal Reserve Bank of New York) – the authorities that supervise the big banks' major foreign markets.

The very existence of a lead supervisor does not entirely dispense with the need for discussing co-ordination and alignment among the authorities. Such discussions can be conducted in appropriate forums (supervisory colleges). Large cross-border banking groups within the European Economic Area (EEA) have such a supervisory college in place.

8 | 3 Business requirements and current regulatory efforts

The pursuit of banking and brokerage activities is subject to a licence issued by FINMA. Banks must meet the statutory requirements in order to obtain this licence. Above all, business management integrity has to be warranted. In this context, persons responsible for the banks' administration and management as well as holders of critical amounts of shares in the banks have to assure proper business conduct. Other prerequisites pertain among other things to the banks' minimum capital and internal structure, diversification of risk, liquidity and reporting. All these requirements have to be met permanently. If this is not the case, FINMA may withdraw a bank's license with the result that the bank would have to close down.

The narrow definition of a bank applies to a company that accepts deposits from third parties or publicly offers such services in order to provide any form of financing to an unspecified number of private individuals or companies that are not directly related to that company. The definition of a bank also applies to large financial intermediaries that are refinanced by several non-related banks and pursue, strictly speaking, the same type of activities as banks.

Various aspects of regulation have come under criticism in the context of the financial crisis. Possibilities and the scope of tightening the regulatory requirements are being explored on a national and international level. The focus lies, for instance, on capital (Basel II) and liquidity requirements, depositor protection, financial reporting standards and remuneration schemes. The amendments envisaged in each of these areas are described in the respective sections below.

Equity capital

The balance sheet of a bank differs substantially from that of an industrial company. The assets of a bank are predominantly financial assets, while liabilities are primarily client deposits and borrowed funds (the majority of which are short-term).

The Swiss banking law requires that banks provide enough equity capital to ensure they can cover any losses before creditor claims are impaired. Equity is then used as a cushion for any losses. The weighted (at various rates) assets on the balance sheet that involve risk, certain off-balance sheet transactions, as well as open securities positions, foreign exchange and derivative transactions must be covered by 8% equity. The rates are inversely proportionate to the security of the positions to be covered. The capital adequacy requirements must be met both individually and on a consolidated basis. Statutory equity capital covers the market, credit and operational (e.g. business disruption) risks of the banks.

At the beginning of 2007, the Swiss Federal Capital Adequacy Ordinance (CAO, Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers) came into effect along with several new circulars issued by today's FINMA. Switzerland adopted all three pillars required under Basel II in good time. These requirements pertain to capital adequacy (pillar 1), supervisory process for banks (pillar 2) and transparency and disclosure (pillar 3).

The objective of Basel II is to enhance the equity capital regulation in general, in particular by increasing risk sensitivity – i.e. the correlation between risk (credit, market and operational risk) and statutory capital. Basel II subtly differentiates the types of risk and provides for individual methods of determining the appropriate equity capital that is needed in each respective case (menu approach). The implementation in Switzerland is generally deemed strict, yet differentiated and pragmatic and continues to be supported by the banking sector.

In December 2008, the Swiss Federal Banking Commission (now FINMA) informed about the tighter equity capital requirements for both Swiss big banks. First, requirements were raised substantially with regard to risk-weighted capital (Basel II). Both banks are now required to hold equity capital at 50% to 100% in excess of the international minimum requirement, with a target of 200% in times of economic prosperity (100% each for pillars 1 and 2). Second, a leverage ratio was introduced for both banks. The minimum ratio between tier 1 capital and total assets is 3% at group level and 4% at business segment level. The big banks have to come into compliance with the tighter Basel II requirements as well as the leverage ratio requirements by 2013.

Liquidity

Among other things, banks engage in maturity transformation by using short-term deposits to grant long-term loans. Hence they are exposed to interest rate risk due to the different lock-in periods between receivables and liabilities. Banks are also exposed to liquidity risk: Should an unexpected number of clients wish to withdraw their deposits at the same time, the bank would have to sell some of its invested assets early and possibly at a loss. The SBL therefore stipulates an adequate ratio of tangible and readily realisable assets to the banks' short-term liabilities.

To enhance the liquidity standards, qualitative (risk management) as well as quantitative (minimum liquidity) requirements have been proposed. In December 2009, the Basel Committee presented a consultation paper containing proposals for strengthening the resilience of the banking sector. The Basel Committee on Banking Supervision expects banks to implement these tightened regulatory requirements by the end of 2012. Moreover, the G20 decided in December 2009 that international accounting rules bodies such as the International Accounting Standards Board (IASB) should develop standardised and sophisticated global accounting standards by June 2011.

Depositor protection

In the event of bankruptcy, the bank's creditors are compensated from the bankruptcy estate in line with their statutory ranking. Collateralised claims are settled first, by disposition of the pledge. Other claims are categorised in three bankruptcy classes. The claims of first-class creditors are settled first, followed by second and then third-class creditors, naturally presuming that there are sufficient assets to cover the liability. Third-class creditors usually account for the largest part of the total claims, and may be compensated only partially. However, pursuant to the Banking Law, certain third-class claims up to a maximum of CHF 100,000 per creditor are upgraded to a special category of second-class rank. These claims are privileged vis-à-vis third-class claims and are practically guaranteed, considering the stringent equity requirements. The banks' depositors are in an even better position, as clients' deposits are treated separately in the event of a bank's bankruptcy, i.e. such deposits are excluded from the bankruptcy estate in the first place, and are paid out to the clients in full.

The Swiss Depositor Protection Agreement (self-regulation) serves the purpose of protecting client deposits and is supported by a separate association. The Agreement ensures that, in the event of a bank's failure, depositors will rapidly receive their statutory privileged claims. The deposits are paid out to the maximum amount available from the respective bank's liquid assets. The depositor protection fund complements the remaining amount due, up to a maximum of CHF 100,000 per client of the failing bank. As and when such a case arises, the Swiss Banks' and Securities Dealers' Depositor Protection collects from the signatories to the agreement contributions based on a quota. The depositor protection association assumes the role of the benefiting creditors in the further course of the liquidation procedure, for the amount it paid out to the creditors.

As an immediate measure in response to the financial and economic crisis, the maximum amount of privileged deposits was raised from CHF 30,000 to CHF 100,000 per depositor in December 2008. Moreover, the system ceiling was raised from CHF 4 billion to CHF 6 billion. This immediate measure will remain in place for the time being.

The uncertainty in financial markets has also prompted several other countries to expand the scope of their depositor protection provisions. The simultaneous increase of privileged deposit amounts resulted in a strong tendency toward harmonisation among individual countries. Such harmonisation was particularly evident within the EU, where the amount of privileged deposits was raised with immediate effect from a minimum of EUR 20,000 to a minimum of EUR 50,000, and in another step as of 31st December 2010 to EUR 100,000. In addition, the payment terms were reduced considerably to 20 business days. The concept of risk sharing used to be permissible and has now been abolished.

Remuneration schemes

The Swiss Financial Market Supervisory Authority (FINMA) issued a circular in October 2009, in an effort to align the remuneration schemes of the largest financial sector companies with the companies' respective long-term results (see FINMA circular "Minimum standards for remuneration schemes of financial institutions"). Parts of the circular came into effect on 1st January 2010, and by 1st January 2011 all provisions have to be complied with.

In the context of the financial crisis that broke out in 2007, pressure has been growing in Switzerland as well as abroad to regulate the banks' remuneration schemes. In response to this demand, various solutions have been proposed for regulating the remuneration schemes within the financial sector. There seems to be a common understanding that remuneration has to be closely correlated with the banks' sustainable results. This approach aims to discourage from entering into excessive risk due to a short-term focus. Moreover, bonus rules should be complemented with clawback provisions.

On request by the G20, FSB issued specific guidelines governing these regulatory efforts ("Principles for Sound Compensation Practices – Implementation Standards"). Among other things, these guidelines envisage the creation of a compensation committee to supervise the remuneration system (correlated to risk), and they stipulate that national supervisors should have the authority to limit variable compensation when it is inconsistent with the maintenance of a sound capital base. Moreover, the guidelines provide for clawback rules when results are poor.

Other regulatory efforts

Due to the financial crisis, governments around the world had to support or rescue financial companies, which were too big or too interconnected to fail. The term "too big to fail" or "too interconnected to fail" is used for companies, which cannot be allowed to collapse without risking grave implications for other areas of the economy (e.g. the chain reaction that would ensue if the payment system failed). A implicit public guarantee for such system-relevant companies could lead to a distortion of incentives and other undesirable effects. Such moral hazard has to be avoided. It is therefore necessary to ensure that insolvent banks can be wound up in a regulated manner, based on a "living will" that banks should have to establish. This implies that banks should develop strategies to be applied in the event of their bankruptcy, stipulating for instance a divestment policy for the banks' business units. However, international regulation to this effect would have to be aligned, since most banks that are governed by these rules operate globally.

In January 2010, President Obama further proposed that investment banking should be separated more strictly from other banking activities such as client deposit business. This proposal also contains suggestions with regard to limiting the size of banks and restricting proprietary trading. President Obama's proposal resembles the Glass-Steagall Act that introduced the separation of commercial banks from investment banks in the 1930-ies. The Glass-Steagall Act was repealed in 1999.

Being responsible for ensuring system stability in Switzerland, the Swiss National Bank (SNB) proposed three separate sets of measures aimed at preventing the issue of "too big to fail" or "too interconnected to fail". The first approach involves obliging system-relevant banks to build up ample equity capital and liquidity cushions. The second proposal aims to introduce standard liquidation procedures for system-relevant banks in times of crisis, based on the regulatory framework and financial market infrastructure. The third proposal considers the possibility of controlling the maximum size of banks.

The cumulative effects of tighter regulation must not be neglected. Even if mutual correlation can hardly be assessed in all its complexity, this very interdependence requires new regulation to be developed from an integral and holistic perspective and evaluated on the basis of its cumulative (anticipated) effects.

To meet higher capital or liquidity requirements, banks may have to reduce their lending capacity, which would have an adverse effect on the real economy. Such effects have to be taken into consideration in designing regulatory changes.

9 International cooperation in tax matters and criminal cases

9 1 Selected items of Swiss regulation

Bank client confidentiality

Bank client confidentiality serves to protect privacy, as provided by the Swiss constitution and law. Pursuant to art. 13 of the Swiss Federal Constitution, every individual has the "right to privacy in their private and family life". This right to privacy also extends to financial income and personal wealth situation, but not to any case of criminal abuse. The bank is obliged to respond to prosecution authorities' enquiries, regardless of bank client confidentiality. With every new definition of a criminal offense, such as insider trading (1988) or money laundering (1990), new duties have been introduced for banks to provide information. Within the procedures of international administrative and legal assistance, banks are also obliged to provide information to non-Swiss prosecution authorities.

Bank client confidentiality is enshrined in art. 47 of the Swiss Banking Law of 8th November 1934 which stipulates that no director, employee, agent or liquidator of a bank, and no director or employee of an auditing company may forward or disclose information about clients which they receive in the course of performing their duties. This restriction also applies to stock exchanges and securities dealers pursuant to art. 47 of the Federal Act on Stock Exchanges and Securities Trading of 24th March 1995.

The term "bank client confidentiality" is more appropriate in this context than the traditional term "banking secret", as it refers to the protection of clients and not of banks. Swiss law also provides for confidentiality in relation to other professions such as medical doctors or attorneys. All confidentiality provisions are designed to protect personal privacy, as stipulated in art. 13 of the Swiss Federal Constitution.

However, bank client confidentiality is not unrestricted and provides no protection in particular for criminal activities. Banks are obliged to disclose client information in specific cases such as:

- in civil action suits (e.g. inheritance or divorce),
- in debt collection or forced liquidation proceedings,
- in criminal suits (e.g. money laundering, involvement in a criminal organisation, theft, tax fraud, blackmail, etc.),
- proceedings under international administrative and legal assistance.

Differentiation between tax evasion and tax fraud

The Swiss legal system differentiates between tax evasion and tax fraud. This differentiation is based on the concept of self-declaration and serves to protect individuals. Errors and omissions in an individual's declaration of income and assets are deemed tax evasion. In Switzerland, this does not constitute a criminal act, but is punishable with a fine that may amount to a multiple of the amount that was not declared. By contrast, forging tax declaration documents is deemed as tax fraud, which is a criminal act subject to criminal proceedings. The differentiation between tax evasion and tax fraud is ingrained in Swiss legal tradition and affirmed by direct democratic vote. Mutual trust and respect between the government and the public is an essential feature of the Swiss understanding of state governance.

International administrative and legal assistance can only be granted in cases of tax fraud, but not in cases of mere tax evasion. To solve this issue in relation to international standards, Switzerland has repealed the differentiation between tax evasion and tax fraud for the purposes of administrative assistance under double taxation agreements (see chapter 9.2). However, the differentiation remains in place for the purposes of legal assistance.

International legal assistance in criminal cases

Switzerland provides mutual legal assistance to foreign authorities, according to the Federal Act on International Mutual Assistance in Criminal Matters of 1981 (IMAC, amended in 1995). In the course of such mutual assistance, information may be exchanged, assets may be frozen and, as the case may be, handed over to the foreign authorities concerned. International mutual assistance in criminal matters is based essentially on the principles of dual criminality, speciality and proportionality. Under the dual criminality rule, Swiss courts will apply coercive measures, such as lifting the requirement of bank client confidentiality, only if the act under investigation is punishable as an offence by the laws in both Switzerland and the requesting country. Pursuant to the speciality rule, information obtained through the mutual assistance arrangement can only be used for the purposes of the criminal proceedings for which the assistance is granted. The proportionality rule serves to ensure that the measures sought in conducting the request for assistance must be proportionate to the crime, and discretion must be exercised if the proceedings may adversely affect the interests of persons not directly involved. Final cantonal judgements and Federal Police directives are subject to a single administrative appeal to the Supreme Administrative Court. An appeal to the Federal Court can be made in cases involving extradition, confiscation, submission of objects or assets or divulging classified information, or in particularly significant cases.

Repatriation of potentates' money

As defined by the FINMA Anti-Money Laundering Ordinance, money belonging to potentates is money that was unlawfully obtained by politically exposed persons and their dependents. Such money is often taken out of the country and invested in international financial centres.

Such assets not only pose a problem for the economic development of the country where they were misappropriated, but they can also harm the reputation of Switzerland and its financial centre. Switzerland has therefore a natural interest to prevent such assets from being invested in the Swiss financial centre.

Switzerland deals with this issue by making efforts to hold such assets off in the first place. For any such assets that may have ended up in Switzerland despite all preventative measures, Switzerland will provide legal assistance to facilitate an effective and unbureaucratic restitution.

These preventative measures are based on the international standards that were issued by the Financial Action Task Force (FATF) and elaborated in co-operation with the banking industry. FATF is the key organisation in the international fight against money laundering and the financing of terrorist activities. The Swiss Anti-Money Laundering Act is based on the FATF standards, obliging financial intermediaries to identify assets of potentially criminal origin and report such assets to the anti-money laundering agency (governed by the Anti-Money Laundering Act).

Restitution by way of legal assistance is an important instrument for combating potentates' assets. Switzerland is the only country that has been addressing the issue of restitution of blocked assets for 20 years. So far, CHF 1.7 billion in blocked assets have been returned to their countries of origin. Some cases attracted much media attention due to the high profile of the individuals involved (e.g. Marcos, Abacha, Montesino and Salinas).

However, legal assistance becomes ineffective when the governments concerned are either unable ("failing states") or unwilling to co-operate with Switzerland. The cases Duvalier (Haiti) and Mobutu (Democratic Republic of Congo) fall in this category. Their assets have been blocked since 1986 and 1997, respectively. In the case of Mobutu, the Federal Court ruled in July 2009 that Switzerland has to lift the blocking and hand the assets out to Mobutu's family, due to lapse of time.

In order to prevent such cases from recurring, the Federal Council mandated the Federal Department of Foreign Affairs (FDFA) in December 2008 to elaborate a bill for confiscating, collecting and restoring illegal assets. This law is to ensure that assets are restored in a transparent manner for the benefit of the originating country's population. The consultation on this bill was closed in spring 2010.

To demonstrate its commitment on an international level, Switzerland has launched a number of initiatives to support the fight against corruption and embezzlement of public assets, as well as the restitution of such assets. Since 2001, Switzerland has been organising informal meetings of government experts in Lausanne, where representatives of the key financial centres (notably from G8 countries) work with representatives of selected Southern and Eastern countries towards aligning restitution regulations. Furthermore, Switzerland co-operates closely with the Stolen Assets Recovery Initiative (StAR), which was launched jointly by the United Nations Office on Drugs and Crime (UNODC) and the World Bank in 2007. Last but not least, Switzerland has been a sponsor of the International Center for Asset Recovery (ICAR) since its launch in 2006.

9 | 2 International tax agreements

Bilateral II

Switzerland signed the Bilateral II agreements with the EU on 26th October 2004. Succeeding the Bilateral I agreements of 1999, this second set of agreements covers additional economic interests (food industry, tourism, financial centre) and extends the co-operation between Switzerland and the EU beyond the existing economic scope to new important political domains such as security, asylum, environment and culture.

The agreements on capital income taxation, Schengen/Dublin and combating fraud are of particular importance to the Swiss financial centre. Bank client confidentiality remains safeguarded under all agreements.

The **agreement on the taxation of savings income** between Switzerland and the EU entered into force on 1st July 2005. As of that date, Switzerland introduced a system of securing taxes for the benefit of EU member states, in lieu of the automatic exchange of information (co-existence model). Bank client confidentiality in Switzerland thus remains fully protected. The system of securing taxes involves tax retention or, alternatively, the voluntary declaration of interest payments, thus providing EU member states with an effective taxation guarantee with respect to

all savings interest payments made via paying agents in Switzerland to persons liable for tax in the EU. This system also applies to interest payments from debtors outside the EU, but excludes interest payments of Swiss source that are subject to Swiss withholding tax. The agreement involves an incremental tax rate, starting at 15% (20% from 2008 to June 2011, 35% thereafter). If authorised by the beneficiary of the interest payments, the interest payments can be reported to the tax authorities at the beneficiary's country of residence in lieu of tax retention in Switzerland.

Banks in Switzerland took great efforts and incurred substantial costs to implement all adjustments that were necessary in order to be ready in good time to meet the requirements arising from the agreement with the EU on the taxation of savings income. Gross revenue from Swiss withholding tax on savings income of persons liable for tax in the EU amounted to CHF 738.4 million in 2008. 75% of these revenues are paid to the EU or its member countries. Switzerland retains the remaining 25% to cover its expenses. A total of approx. 43,000 voluntary savings income declarations were made in 2008.

The EU is currently revising the guidelines on savings income taxation with the aim to close certain loopholes. This concerns the taxation of securities-like claims, certain types of life insurance and structured products as well as investment funds, which have not been considered so far. Also, private individuals should no longer have the possibility to circumvent their tax obligations by using a legal entity as an intermediary. In renegotiations between Switzerland and the EU, the Swiss Bankers Association will demand a reduction of the current maximum tax rate of 35%.

On 5th June 2005, Swiss voters accepted the **Schengen/Dublin association agreement.** Switzerland has thus been fully integrated in the Schengen/Dublin area since 12th December 2008.

The agreement not only involves a reduction in border control, but also closer cooperation in matters concerning police work and asylum legislation. The only provisions relevant to the banking sector are those pertaining to legal assistance in criminal cases.

Schengen/Dublin being a dynamic agreement, Switzerland has reserved the right to opt out should legal assistance provisions be extended to apply to direct taxation. In other words, Switzerland can remain a party to the agreement without necessarily implementing such extended provisions.

The **agreement on combating fraud** is also part of the Bilateral II agreement and relates to legal and administrative assistance with regard to indirect taxation in cases of tax fraud and serious tax evasion. Switzerland implemented this agreement early as of 8th April 2009, although it has not yet been adopted by all EU members.

Within the scope of the fraud agreement, Switzerland grants EU authorities access to the same instruments that are used in Swiss domestic proceedings. Mandatory measures thus now apply not only to cases of tax fraud but also to tax evasion. Such measures include for instance house searches, hearing of witnesses and inspection of bank accounts. These measures are subject to a judicial search warrant and the offence must involve an amount no smaller than EUR 25,000.

In the future, legal assistance will be provided in the case of assets from serious tax fraud or professional smuggling that are invested in Switzerland. However, the Swiss definition of money laundering remains unchanged.

Direct taxation is specifically excluded from the agreement. Moreover, the principle of speciality continues to apply: information obtained through the mutual legal assistance arrangement may not be used for the purposes of direct taxation proceedings.

Qualified Intermediary Agreement

In 2001, the US government introduced a procedure for deducting US withholding tax, similar to the EU taxation of savings income. However, the US procedure is not based on international treaties, but on direct agreements with individual banks. Banks thus have to in fact obtain the status of a Qualified Intermediary (QI) if they want to hold US securities on behalf of their clients. In line with certain provisions, qualified intermediary banks engage to record clients who hold US securities and report such records to the US Internal Revenue Service (IRS), as well as to retain the required withholding tax. These provisions may deviate from national regulation. An estimated 200 banks in Switzerland have obtained the status of a Qualified Intermediary.

The IRS is currently seeking to tighten the QI requirements further, as a result of which investing in US securities will be increasingly unattractive. In view of such tightened regulations, some banks could give up their QI status and refrain from buying US securities.

A new law was passed in the US on 18th March 2010, complementing the existing Qualified Intermediary Agreement with an additional system. Pursuant to the Foreign Account Tax Compliance Act of 2009 (FATCA), foreign financial companies will have to disclose to the IRS any accounts or investments held by US persons, as of 2013. Companies unwilling to comply with FATCA will be liable to pay a withholding tax of 30% on dividends, interest payments and proceeds from the sale of US securities.

Swiss double taxation agreements

The purpose of double taxation agreements (DTA) is to prevent income and assets from being subject to tax in two different countries. Such tax liability may arise for companies with offices in several countries, or for private individuals who are domiciled in more than one country. In order to avoid double taxation issues, Switzerland has entered into double taxation agreements with 73 countries including all major industrialised countries. A DBA may extend to various types of taxation (e.g. income, wealth or inheritance tax) and governs various aspects of cross-border taxation such as tax exemption for earnings generated by affiliated businesses in partner countries, withholding tax reclaims or tax on royalties.

Double taxation agreements usually contain provisions with regard to mutual administrative assistance. Such provisions govern the cross-border co-operation between the respective tax authorities.

Article 26 of the OECD model agreement on double taxation

Switzerland is one of the founding members of the Organisation for Economic Co-operation and Development (OECD). The 30 members of the OECD jointly account for 70% of the world's gross national income. The OECD develops international standards, which are normally passed by consensus. Switzerland participates in matters concerning economic policy, financial markets, structural policy, tax and health. The OECD is the world's leading organisation in tax policy matters.

The OECD provides its members with a model agreement on double taxation. The model agreement constitutes neither applicable nor effective law, but is merely a template that serves as a basis for international agreements negotiated and signed among governments. The model agreement comprises 31 articles and governs a range of taxation issues on various subjects. Art. 26 of the OECD model agreement conclusively governs the exchange of information, i.e. mutual administrative assistance among the tax authorities of the signatory countries.

On 13th March 2009, the Federal Council decided that Switzerland shall adopt the OECD article 26 on mutual administrative assistance in tax matters. Switzerland will, thus, be providing administrative assistance not only in cases of tax fraud, but also in cases of tax evasion. The implementation of this decision involves an according amendment of Switzerland's double taxation agreements with other countries. Several of these agreements have already been revised to the effect that they now include the OECD standards as well as some enhancements benefiting Switzerland for instance in the area of withholding tax. The revised double taxation agreements are yet to be ratified by the Swiss Parliament.

Swiss bank client confidentiality remains safeguarded upon the inclusion of article 26. Administrative assistance is provided only in isolated cases and the practice known as "fishing expeditions" is not permitted. Switzerland exchanges information on request, and not automatically, with countries under a revised double taxation agreement including art. 26 of the OECD model agreement. Administrative assistance is provided subject to the following conditions:

- the foreign tax authority has to submit a request in writing, stating an adequately reasonable suspicion,
- the request must contain a specific reference to the identity of the person liable to tax,
- the facts of the tax evasion case have to be adequately described,
- the bank or branch concerned has to be specified.

Persons liable to tax who disagree with a decision on providing administrative assistance, may lodge a complaint with the Federal Administrative Court.

An ordinance is currently being prepared to govern matters pertaining to administrative assistance. This ordinance should be used as the basis for respective legislation.

9 | 3 Anti-money laundering measures

Fighting money laundering and organised crime is a permanent and important task for the authorities. Over the past years, a number of decrees have been passed in this context: The Federal Act on the Prevention of Money Laundering in the Financial Sector (Anti-Money Laundering Act), the Anti-Money Laundering Ordinance of the Swiss Financial Markets Supervisory Authority (AMLO FINMA) as well as the provisions of the Swiss Penal Code (SPC). With an interest in safeguarding their good reputation, banks are also anxious to ensure that their services are not misused. The banks' self-regulation, notably the agreement on the Swiss bank's code of conduct with regard to the exercise of due diligence, is an important factor in the fight against money laundering.

Legal basis

The Anti-Money Laundering Act (in effect since 1st April 1998) is applicable to all financial intermediaries who accept third-party assets, i.e. banks, investment fund managers, securities traders, insurance companies, attorneys, independent wealth managers, trustees, investment advisors, money brokers etc. Its due diligence requirements are based on the agreement on the bank's code of conduct with regard to the exercise of due diligence (CDB) and the former Swiss Federal Banking Commission (SFBC) Anti-Money Laundering Ordinance. The Anti-Money Laundering Act stipulates the obligation for financial intermediaries to report all cases of justified suspicion of money laundering to a federal control authority. The implementation of the law is based on self-regulation and public direct supervision. Trustees, wealth managers, finance companies and money brokers, thus far not subject to supervision under federal law, have formed self-regulatory associations. These associations have to issue regulations in line with legal requirements, analogous to the CDB for banks.

The former SFBC Anti-Money Laundering Ordinance came into effect in mid-2003. The guidelines against money laundering and assets belonging to politically exposed persons, thus far embedded in circulars, have thus been tightened and upgraded to the level of an ordinance and extend also to financing of terrorist activities. The ordinance commands inter alia systematic and electronic global monitoring of high-risk business relationships. Moreover, the concept of "politically exposed persons" and the obligation to exercise enhanced due diligence have been embedded in material law for the first time. The ordinance was revised for the first time in 2008, to accommodate the Financial Action Task Force (FATF) recommendations as well as the 9 special recommendations against financing of terrorist activities.

The anti-money laundering provisions of the Swiss Penal Code (Money laundering, SPC art. 305bis) of 1990 stipulate punitive measures for any action designed to obstruct investigations into the origin or location, or prevent the confiscation of assets, if such assets are known or must be assumed to be proceeds from a crime. Professional financial intermediaries are statutorily obliged to apply the "know-your-customer" principle. Insufficient identity verification of a contracting partner or beneficial owner is deemed an offence, pursuant to SPC (art. 305ter, par. 1). Financial institutions are allowed to report to authorities any observations leading to the conclusion that assets originate from a crime. Such reporting does not constitute a violation of bank client confidentiality (SPC art. 305ter, par. 2).

The new penal provisions on corruption (SPC art. 322ter–322octies) stipulate punishments for the act of offering and receiving a bribe or preferential treatment vis-à-vis Swiss officials and the act of offering a bribe to or accepting a bribe or preferential treatment from foreign officials.

Anti-money laundering self-regulation

The self-regulation of banks plays a particularly important role in fighting money laundering. The agreement on the code of conduct regarding the exercise of due diligence (CDB) was in effect a long time (1977) before the enactment of the Anti-Money Laundering Act and before relevant provisions were included in the Federal Penal Code.

The CDB is revised at five-year intervals. The latest revision took place in April 2008. The duty to verify the identity of a contracting partner or beneficial owner is a core element of the CDB. The CDB details the procedure of identification and specifies the documents to be examined. It also stipulates the documents that have to be kept on file. Moreover, the CDB prohibits the assistance in the flight of capital from countries where cross-border investment restrictions are in place. The CDB also prohibits banks to provide active assistance in tax evasion or similar acts by issuing incomplete statements.

Statutory bank auditors are mandated by the banks as well as the Financial Markets Supervisory Authority (FINMA) to monitor the banks' compliance with the CDB. Designated inspectors and an independent CDB supervisory body assess violations against the CDB. The CDB supervisory body may impose fines of up to CHF 10 million. Such fines, net of costs, are donated to the International Committee of the Red Cross.

Financial Action Task Force

The Financial Action Task Force (FATF) was established in 1989 at the G-7 summit in Paris. Its original mandate was to provide an overview of forms of international anti-money laundering co-operation at the time, and elaborate a list of measures. The FATF currently consists of 35 members, including Switzerland as one of its founding members.

The FATF's mission is to establish international standards for the prevention of money laundering and financing of terrorist activities, and to monitor its members' compliance with the relevant recommendations at regular intervals. In April 2005, the FATF performed the third country review of Switzerland. It examined authorities, banks and other financial intermediaries with regard to the implementation status of the 40 recommendations and 9 special recommendations issued in 2001 and 2004, respectively.

In June 2003, the FATF completely revised its 40 recommendations for the first time since it was founded. The revision covers new forms of crime in the areas of money laundering and terrorism financing. The FATF has been continually expanding its list of measures, notably with regard to financial and stock exchange offences that may be predictive to money laundering. The cost-benefit aspect of such measures is usually deemed of subordinate relevance.

Implementation of the FATF recommendations in Switzerland

By international comparison, Switzerland has a solid and comprehensive set of tools and measures for combating money laundering, and this is acknowledged by the FATF, especially since Switzerland has always led the way in combating money laundering and financing of terrorist activities. In fact, the CDB initially served as a basis for defining the FATF's 40 recommendations for combating money laundering. The banks have a substantial interest in preserving this recognition.

Following the revision of the FATF recommendations in 2003, the Swiss Federal Council launched a consultative procedure on various law adjustment proposals in January 2005, aiming to implement the necessary adjustments. The preliminary draft includes an expanded range of predicative crimes to money laundering as well as an extended group of entities that are subject to the Federal Anti-Money Laundering Act (AMLA). Moreover, the AMLA should better accommodate the need for exchange of information among authorities that are involved in combating money laundering. And the draft also proposes disclosure requirements for holders of bearer shares vis-à-vis the respective companies. SBA and the financial centre as a whole voiced their criticism with regard to certain aspects of the proposal for the implementation of the revised FATF recommendations. In response to these concerns, a moderated and more viable new version of the Anti-Money Laundering Act was elaborated and enacted on 1st February 2009.

The FATF has recognised the efforts Switzerland has made in implementing the revised recommendations. Based on the measures that have been taken since the preceding country evaluation by the FATF in 2005, the international supervision of Switzerland was terminated within the 3rd cycle of the global evaluation procedure (2004–2011). Switzerland will thus henceforth be evaluated by the FATF only biannually and in a simplified procedure. The FATF has criticised some aspects such as the effectiveness of the reporting system for suspicious activities, transparency with regard to bearer shares and the implementation of international standards for blocking assets generated through terrorist activities. Nevertheless, Switzerland is among the first countries – along with Italy, Norway and Great Britain – that are evaluated in the simplified manner.

Glossary of terms

Administrative assistance

Mutual assistance among administrative authorities of differentcountries. Switzerland grants administrative assistance on a case-by-case basis and on request. In Switzerland there is no general legal basis for international administrative assistance. Administrative assistance is governed by double taxation agreements and savings taxation agreements, as well as by the Anti-Money Laundering Act.

Asset & liability management (ALM)

Holistic analysis and reconciliation of assets and liabilities in a balance sheet. Assets & liability management is applied with the aim to develop an investment strategy based on an analysis of the balance sheet structure, which is aligned with the investor's risk capacity and appetite.

Assets under management (AUM)

A financial key figure that reflects the volume of assets managed by a company. AUM is an important indicator for the size of a financial company. As defined by the Financial Markets Supervisory Authority (FINMA), AUM comprise all invested assets that are subject to investment advisory or asset management services. Such assets include securities portfolios in client accounts, fiduciary investments, amounts due to clients from savings and investment accounts as well as clients' time deposits.

Authority to act independent of instructions

Entities with an authority to act independent of instructions are bound only by law and justice. The Swiss National Bank and its governing bodies are thus formally forbidden to follow any instructions from the Federal Council, the Federal Assembly or other public or private bodies.

Basel II

Overall statutory capital requirements as proposed by the Basel Committee on Banking Supervision and enacted in most countries since 2007. Basel II consists of three pillars: minimum capital requirements, statutory auditing process and disclosure requirements. FINMA supervises the implementation of Basel II in Switzerland.

Capital market

Market for trading in medium and long-term capital. Companies and public institutions trade in the capital market to meet their financing requirements. The capital market consists of an equity market (e.g. equities and funds) and a debt market (e.g. bonds).

Clearing

Central settlement of mutual liabilities among banks. There are clearing systems for cash transactions as well as securities. Cash clearing is usually performed by central banks.

Co-existence model

A compromise solution allowing for a choice between raising a withholding tax on savings income and disclosing information to the tax authorities of other member countries. The information relates to savings income paid to private individuals who are domiciled in those countries. This model was proposed to countries with bank client confidentiality.

Credit rating

Creditworthiness and solvency of a debtor. Credit rating may be applied to private individuals as well as legal entities.

Cross-selling transactions

The act of marketing various categories of a company's own products to existing clients.

Currency swap

A transaction in which a currency is bought on the spot and immediately sold forward at a future date. In simple terms, a currency swap is an exchange of Swiss francs for another currency.

Deflation

An irregularity in monetary value, with the opposite effect of inflation. Deflation is given when the amount of money in circulation decreases relative to the amount of goods and services available. Money supply can decline in relation to available goods when more money is saved in view of a poor outlook, or when money circulation slows down due to lower demand for investment loans.

Derivative

A financial instrument linked to the value of another investment product, a currency or an index. Derivatives include, for example, options, futures and swaps.

Direct tax

The amount of direct tax is calculated on the basis of income or assets that are attributable directly to a private individual or a company liable to tax.

Double taxation

Double taxation arises from an overlap of different tax jurisdictions. Double taxation implies that an individual or a company is liable to pay the same or comparable type of tax on a given taxable object in various countries. To avoid this, many countries enter into bilateral double taxation agreements with one another.

Exchange traded fund (ETF)

Listed funds, which are permanently traded on a stock exchange at fees that also commonly apply to stocks (i.e. without subscription fees). Most ETFs are passively managed equity funds, which track an underlying index.

Flat rate tax

A withholding tax raised on capital income. This tax is deducted anonymously by a paying agent (the bank) for the benefit of the tax authority at the client's country of domicile. The taxation is based on a flat rate and is separate from the respective tax payer's other income taxation. The income tax on capital gains is thus settled. In other words, there is no need for the client/tax payer to disclose his assets or capital income in his regular tax return.

Gross domestic product (GDP)

The sum of all goods and services produced in country over a given period of time (usually one year).

Hedge funds

Private collective investment schemes invested in global markets. Hedge funds pursue an absolute return strategy and are thus not geared to a benchmark. They are deemed a type of fund that applies highly speculative investment methods and is hardly governed by statutory regulation. Unlike ordinary investment funds, hedge funds may sell short, betting on declining markets, and are thus able to achieve a positive performance even in a bear market. Moreover, hedge funds may use borrowed funds in order to achieve a leverage effect.

Indirect tax

A tax, which the taxpayer does not pay directly to the tax authority, but via an intermediary, such as a trader. Market transactions serve as a basis for calculating the amount of indirect tax. Value added tax is a typical example of an indirect tax.

Inflation

An irregularity in monetary value featuring a continuous monetary devaluation. Inflation is given when macroeconomic demand for goods and services exceeds present supply and monetary policy is excessively eased in order to accommodate price hikes. Investments in tangible assets (real estate, precious metals etc.) help reduce the exposure to monetary risk.

(Institutional) asset management

Professional investment of assets in various types of investment (e.g. securities, real estate) on behalf of institutional clients (e.g. insurance companies, pension funds, public institutions).

Interbank lending

Loans granted within the banking system, i.e. loans granted mutually among commercial banks, or central bank loans to a commercial bank. Under Basel II, Interbank loans are exempt from capital requirement provisions.

Interbank market

Global trade in financial instruments (money, securities, currencies) among banks. The interbank market serves to balance the liquidity among banks. Interbank transactions (e.g. interbank lending) are normally short-term transactions.

Investment banking

Area of banking that engages in issuing business, trading in securities, currencies, precious metals and derivative instruments, repo transactions and corporate lending as well as mergers and acquisitions.

Lender of last resort (LoLR)

When an otherwise solvent bank falls short of liquidity, it may turn to the central bank as a lender of last resort for short-term relief funding to bridge the bank's liquidity gap.

Leverage ratio

The level of a company's debt, calculated on the basis of balance sheet debt in relation to balance sheet equity. The leverage ratio is a non-risk weighted key figure.

Liquidity management

Planning, implementation and monitoring of measures designed to protect a company's liquidity, including the active investment of any excess liquidity.

London Interbank Offered Rate (LIBOR)

Interest rate for money market loans to prime banks. The British Bankers' Association (BBA) fixes the LIBOR at 11:00h (GMT) on each business day. LIBOR rates are fixed for various currencies and maturities based on a clearly defined procedure. The Swiss franc LIBOR represents the prevailing average interest rates offered by six leading banks.

Loan facility

A line of credit which a bank grants to its client. Loan facilities normally take the form of a revolving credit, which the client may repay and use again at his discretion up to maturity or termination.

Memorandum of Understanding (MoU)

Anglo-Saxon legal term for a document that contains the key points of an agreement yet to be closed. The MoU is signed by the parties to the future agreement and constitutes merely a declaration of intent without any binding effect.

Money laundering

Activities aimed to disguise the illegal origin of assets and reintegrate such assets covertly back into the legal economic cycle. Money laundering is usually associated with drug dealing. However, a whole range of other criminal activities may be predicative to money laundering, such as misappropriation, corruption, blackmail or human trafficking.

Money market

Market for trading in short-term liquidity (usually up to 12 months). Strictly speaking, the money market (also known as interbank market) comprises exclusively central bank lending as well as mutual call and term deposits among commercial banks. In a wider sense, companies, insurances, pension funds or private investors also have access to the money market to trade call and term deposits held with commercial banks, money market securities and registered money market claims. The usual minimum amount for money market transactions is CHF 100,000.

Moral hazard

Risk of a change in someone's behaviour as a result of his assumption that someone else (e.g. health fund, insurance, a public institution, central bank) will cover any damage he causes through his own actions. Moral hazard is often associated with frivolous or reckless behaviour.

Primary market

Financial market where new securities are issued and placed for the first time. The primary market is also referred to as the new issues market.

Private banking

Wealth management services and investment advice provided to wealthy private clients. The services offered in private banking are usually more sophisticated and customised than in retail banking. Private banking aims to structure and implement a client's personal long-term financial objectives.

Private equity

Private equity businesses invest in companies at their various stages of development by providing equity or similar capital. Such investments are primarily targeted at small and medium-sized companies. Capital is provided for a limited period of time (usually three to ten years). In addition to the financial aspect, private equity also comprises management support and consulting services.

Prudential

A technical term in regulatory law used in the context of supervisory authority activities. It generally relates to preventative regulatory and supervisory practices. Prudential is derived from the Latin word "prudenter", which means "prudence" or "caution".

Retail banking

Banking services offered to private clients and small corporate clients (e.g. freelancers). Retail banking consists primarily of basic services and comprises a standardised and readily understood range of products. The service offer includes account management, payments, credit cards, simple investment products as well as mortgages and loans.

Short selling

A transaction involving the forward sale of a security, which the seller does not yet own. The short seller assumes that he will be able to buy this security at a lower price (fair value) on a future date and he seeks to generate a profit from the spread between the fair value and the originally agreed selling price.

Secondary market

Financial market where securities are traded, which have already been issued.

Syndicated loan

A way for large corporations to raise capital. Syndicated loans are issued by a syndicate of several banks, which engage to provide medium or long-term capital to a corporation, on the basis of a standardised agreement and on identical terms. The amount of such loans usually exceeds CHF 250 million and cannot be issued by one bank alone. Bond issues are another way for large corporations to raise new capital.

System stability

Stability of the banking sector and the financial market infrastructure, which includes stock exchanges as well as payment and securities settlement systems. Financial system stability entails primarily that the liquidity supply in an economy can be sustained or at least quickly restored in the event of disruptions. A well functioning financial system is a key prerequisite for successful economic development in the long run.

Taxe occulte

A type of hidden tax, which is integrated in the selling price of tax-exempt services, because banks cannot deduct as prepaid tax the amount of value added tax they pay on preparatory work and investments related to such services.

Time deposit

Money a client deposits with a bank for a pre-defined period of time and at a fixed rate of interest. The maturity of time deposits usually ranges between 3 and 24 months in Switzerland. Shorter maturities may be agreed for larger amounts.

Total assets

The sum of all assets or liabilities in a company's balance sheet. Both sums are necessarily identical. However, the total assets represent only a part of the total business volume of banks. Banks' off-balance sheet transactions (e.g. client deposits or fiduciary investments) have become increasingly significant.

Too big to fail

Implies that a company is too large to be allowed to collapse or not to be rescued. The term relates to certain corporations as well as entities such as countries or cities, which are automatically protected from insolvency by virtue of their mere size. Their relevance to the system is such that in the event of a crisis the government or an international public entity would bail such companies out in order to prevent a hazard to the entire economy or economic system.

Too interconnected to fail

Implies that a company is critical to the system and cannot be allowed to collapse, because its activities are too closely interlaced with many other (financial) companies. As in too big to fail, in the event of a crisis the government or an international public entity would bail such companies out in order to prevent a hazard to the economic system.

Wealth management

Generic term for wealth management services offered to private as well as institutional clients.

Withholding tax

Most countries raise taxes on capital gains. Such taxes are deducted and retained before the net income is paid to the creditor. The Swiss withholding tax rate is 35% of the gross capital income. Swiss domestic taxpayers can reclaim the retained withholding tax by including such capital gains appropriately in their tax returns. Subject to a double taxation agreement, taxpayers domiciled in other countries may also reclaim the Swiss withholding tax partially or in full by duly reporting their capital gains in their tax returns.

Abbreviations

ACI	Association of Swiss Commercial and Investment Banks
AFBS	Association of Foreign Banks in Switzerland
AGV Banken	Swiss Bank Employers' Association
AMLA	Anti-Money Laundering Act
AMLO	Anti-Money Laundering Ordinance
ASCB	Association of Swiss Cantonal Banks
AUM	Assets under Management
BCBS	Basel Committee on Banking Supervision
BEHG	Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Law)
BIS	Bank for International Settlement
CAO	Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (Capital Adequacy Ordinance)
CAS	Certificate of Advanced Studies
CDB	Agreement on the Swiss bank's code of conduct with regard to the exercise of due diligence
CFA	Chartered Financial Analyst
CISO	Collective Investment Schemes Ordinance
CTF	Commodity Trade Finance
CYP	Center for Young Professionals in Banking
DAS	Diploma of Advanced Studies
DTA	Double taxation agreement
EBA	European Banking Authority
EEA	European Economic Area
ESFS	European System of Financial Supervisors
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange Traded Fund
EU	European Union
FATF	Financial Action Task Force
FDFA	Federal Department of Foreign Affairs
FFA	Swiss Federal Finance Administration
FINMA	Swiss Financial Market Supervisory Authority
FSA	Financial Services Authority
FSB	Financial Stability Board
FSO	Swiss Federal Statistical Office
G10	Group of Ten
G20	Group of Twenty
GDP	Gross Domestic Product
GTSA	Geneva Trading and Shipping Association
HFBF	University of applied sciences in banking and finance
HNWI	High Net Worth Individual
IASB	International Accounting Standards Board
ICA	Federal Act on Insurance Contracts (Insurance Contract Act)
ICAR	International Center for Asset Recovery

IFL Federal Investment Fund Act (Investment Fund Law)

IMAC Federal Act on International Mutual Assistance in Criminal Matters (Act on International Criminal Assistance)

IMF International Monetary Fund

IOSCO International Organization of Securities Commissions

IRS Internal Revenue Service

ISA Federal Act on the Supervision of Insurance Companies (Insurance Supervision Act)

KgK Private limited partnerships for collective investment schemes

LIBOR London Interbank Offered Rate

LoLR Lender of Last Resort

LPP Federal Law on Occupational Benefit Plans concerning Old-Age, Survivors' and Invalidity

LSV Private direct debit

MAA Federal Act on International Monetary Assistance

MAS Master of Advanced Studies

MBA Mortgage Bond Act

MLCA Anti-Money Laundering Control Authority

MoU Memorandum of Understanding

NAV Net asset value

NBA National Bank Act

OECD Organisation for Economic Co-Operation and Development

PEP Politically exposed person

QI Qualified Intermediary

SAAM The Swiss Association of Asset Managers

SAISD Swiss Association of Independent Securities Dealers

SBA Swiss Bankers Association

SBL Federal Act on Banks and Savings Banks (Swiss Banking Law)

SECB Swiss Euro Clearing Bank

SECO State Secretariat for Economic Affairs

SECOM Settlement Communication System

SFA Swiss Funds Association

SFBC Swiss Federal Banking Commission

SIA Swiss Insurance Association

SNB Swiss National Bank

SPBA Swiss Private Bankers Association

SPC Swiss Penal Code

StAR Stolen Assets Recovery Initiative

SWIFT Society for Worldwide Interbank Financial Telecommunication

UNODC United Nations Office on Drugs and Crime

Web sources

Swiss authorities

Federal Department of Finance
www.efd.admin.ch

Federal Department of Foreign Affairs
www.eda.admin.ch

Financial market regulation reform projects in Switzerland
www.finweb.admin.ch

State Secretariat for Economic Affairs
www.seco.admin.ch

Swiss Federal Statistical Office
www.bfs.admin.ch

Swiss Federal Finance Administration
www.efv.admin.ch

Swiss Financial Market Supervisory Authority
www.finma.ch

Swiss National Bank
www.snb.ch

Banking and economic associations

Association of Foreign Banks in Switzerland
www.foreignbanks.ch

Association of Swiss Commercial and Investment Banks
www.vhv-bcg.ch

Economiesuisse
www.economiesuisse.ch

Geneva Trading and Shipping Association
www.gtsa.ch

Raiffeisen Group
www.raiffeisen.ch

RBA-Holding
www.rba-holding.ch

Swiss Association of Asset Managers
www.vsv-asg.ch

Swiss Association of Independent Securities Dealers
www.svue.ch

Swiss Bank Employers' Association
www.agv-banken.ch

Swiss Bankers Association
www.swissbanking.org

Swiss Cantonal Banks
www.kantonalbank.ch

Swiss Funds Association
www.sfa.ch

Swiss Private Bankers Association
www.swissprivatebankers.com

Swiss Structured Products Association
www.svsp-verband.ch

Swiss Insurance Association
www.svv.ch

Swiss financial centre

Banking Ombudsman
www.bankingombudsman.ch

Deposit Protection of Swiss Banks and Securities Dealers
www.einlagensicherung.ch

Geneva Financial Center
www.geneva-finance.ch

SwissBanking Future
www.swissbanking-future.ch

Swiss Finance Institute
www.swissfinanceinstitute.ch

SIX Group
www.six-group.com

Swiss Stock Exchange
www.six-swiss-exchange.com

International organisations

Bank for International Settlements
www.bis.org

Basel Committee on Banking Supervision
www.bis.org/bcbs/index.htm

Financial Action Task Force on Money Laundering
www.fatf-gafi.org

Financial Stability Board
www.financialstabilityboard.org

Group of Twenty
www.g20.org

International Center for Asset Recovery
www.baselgovernance.org/icar

International Organization of Securities Commissions
www.iosco.org

International Monetary Fund
www.imf.org

Organisation for Economic Co-operation and Development
www.oecd.org

United Nations Office on Drugs and Crime
www.unodc.org

World Bank
www.worldbank.org

International associations

European Banking Federation
www.ebf-fbe.eu

International Banking Federation
www.ibfed.org

International Accounting Standards Board
www.iasb.org

Selection of literature

Boston Consulting Group BCG (2009)
"Global Asset Management 2009 – Conquering the Crisis"

Boston Consulting Group BCG (2009)
"Global Wealth 2009 – Delivering on the Client Promise"

Capgemini/Merrill Lynch (2009)
"World Wealth Report 2009"

Federal Department of Finance FDF (June 2009))
"Banking Secrecy and International Tax Issues – Switzerland's viewpoint"

Federal Department of Finance FDF (December 2009)
"Figures on Switzerland as a location for financial services"

Federal Department of Finance FDF (December 2009)
"Strategic directions for Switzerland's financial market policy"

International Center for Monetary and Banking Studies (June 2009)
"The Fundamental Principles of Financial Regulation"

Oliver Wyman (2008)
"The Future of Private Banking: A Wealth of Opportunity?"

Swiss Bankers Association (2009)
"Swiss Credit Market – Highlights"

Swiss Bankers Association (2009)
"The Financial Crisis and Systemic Stability"

Swiss National Bank SNB (2009)
"Financial Stability Report 2009"

The de Larosière Group (2009)
"The High-Level Group on Financial Supervision in the EU"

Towers Watson (January 2010)
"2010 Global Pension Asset Study"

Zurich University of Applied Sciences (ZHW), Institute of Banking & Finance (August 2006)
"Marktszenarien Bank 2010/2015" (available in German only)

Swiss Bankers Association
PO Box 4182
CH-4002 Basel
T +41 61 295 93 93
F +41 61 272 53 82
office@sba.ch
www.swissbanking.org