The Swiss financial and tax centre in 2021: more sustainable, more digital and in good shape despite the pandemic

At the COP26 international climate conference in Glasgow in November this year, the role of the financial sector in achieving climate goals was pushed even more to the forefront and brought into even sharper focus. The Federal Council sees sustainable finance as a huge opportunity for making the Swiss financial centre sustainable and expanding its competitiveness.

Ueli Maurer in Singapore, presenting Switzerland's innovative financial centre

The combination of sustainability and innovative digital technology looks particularly promising. On 1 August, Switzerland's new blockchain/DLT legislation came into force, receiving worldwide recognition. Moreover, the newly established Green Fintech Network presented an action plan. And the Federal Council is proposing concrete recommendations and binding measures on climate-related financial disclosures.

Switzerland's starting position is favourable, with an internationally diversified financial centre, a leading position globally in cross-border asset management, an innovative start-up landscape, its good level of education, its high degree of legal certainty and the presence of numerous multinational companies.

COVID-19 continued to dominate the economic and financial picture. The IMF's annual country peer review praised Switzerland's economic and financial policy response to the pandemic. In 2021, Switzerland was invited to participate in the G20 Finance Track for the sixth time in a row, and has also received an invitation for 2022 from Indonesia, which holds the presidency.

The international tax landscape is evolving rapidly. In July and October, the OECD's Inclusive Framework, in which 141 member countries including Switzerland participate, defined the key parameters for taxing large, internationally active companies, including a minimum rate of 15% on profits. Switzerland' main concern here is legal certainty, and thereby the avoidance of multiple special rules for individual states, to the detriment of innovative countries with small domestic markets.

International competition between locations has started up again. Switzerland stands ready and has said so, on its new finance.swiss internet platform for instance, and during appearances at the Singapore Fintech Festival or the World Expo in Dubai. Singapore and London are also good examples of how Switzerland seeks to collaborate and pursue common interests with other financial locations with which it regards itself as being in healthy competition. Openness to competition is one of the Swiss economic and financial centre's success factors.

The State Secretariat for International Finance advocates Switzerland's interests in financial, monetary and tax matters vis-à-vis partner countries and international bodies. It is committed to good framework conditions to ensure that Switzerland has a secure, competitive and globally recognised financial centre and business location.

2021 review

Sustainable finance

The Federal Council wants to further reinforce Switzerland's position as an internationally leading location for sustainable financial services. Thus, on 12 January 2021, Switzerland officially became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), and on 18 August 2021, set key parameters for the climate-related disclosures that will be binding in the future. By summer 2022, the Federal Department of Finance is to prepare a draft for consultation. On 17 November 2021, the Federal Council recommended that financial market players use comparable and meaningful climate compatibility indicators to help create transparency in all financial products and client portfolios. SIF has further increased its commitment to international initiatives (e.g. International Platform on Sustainable Finance) and is focusing on the qualitatively convincing disclosure of environmental information and the internalisation of environmental costs.

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Distributed ledger technology (DLT)

The Federal Council wants to create the best possible conditions for Switzerland to establish itself and evolve as a leading location for DLT companies. The associated act and accompanying blanket ordinance entered into force on 1 August 2021. The legislative proposal amends securities law so as to provide legal certainty for the trading of assets via electronic ledgers. Furthermore, the segregation of crypto-based assets in the event of bankruptcy is clarified in law. Finally, the Financial Market Infrastructure Act contains a new licence category for DLT trading systems, thereby creating a flexible legal framework for new forms of financial market infrastructure.

Swiss-UK financial relations

On 1 January 2021, the United Kingdom ceased to be part of the EU. On the same date, a bilateral direct insurance agreement entered into force, ensuring the continuance of Swiss-UK financial relations. In addition, on 27 January 2021, both countries agreed to start negotiations on a mutual recognition agreement in the financial sector. The agreement is aimed at allowing cross-border market access for a wide range of services relating to insurance, banking, asset management and financial market infrastructures. Moreover, on 3 February 2021, the UK recognised Swiss stock exchange regulation as equivalent, and Switzerland responded by deactivating the stock exchange protective measure in relation to the UK. As regards tax, the automatic exchange of information has taken place under a new legal framework since 1 January 2021.

Strengthening of foreign relations

Financial dialogues and bilateral working visits serve to establish and maintain privileged contacts with the financial and tax authorities in major partner states, and to improve market access. In this context, in 2021, Switzerland held financial dialogues with India, Russia and Saudi Arabia, and bilateral meetings with China, the European Commission, France, Germany, Indonesia, Ireland, Italy, Singapore, Sweden and the UK.

Integrity of the financial centre

Switzerland is an active participant in international efforts to combat money laundering and terrorist financing. It is involved in drawing up international standards within the Financial Action Task Force (FATF) and implements its recommendations. Thus, on 19 March 2021, Parliament approved a revision of the Anti-Money Laundering Act, in order to implement some of the most important FATF recommendations and to improve Switzerland's defence against money laundering and terrorist financing. The revision provides for measures for financial intermediaries in the areas of beneficial ownership, updating of client data and the reporting of money laundering suspicions. Moreover, it promotes the transparency of associations and strengthens supervision and controls for precious metals.

Financial market stability

In the wake of the financial crisis, Switzerland implemented a number of measures to strengthen banks' resilience. Subsequently, on 30 September 2021, the Federal Department of Finance (FDF) launched the consultation on amendments to the Liquidity Ordinance. The revision is intended to ensure that systemically important banks hold sufficient liquidity to absorb losses and cover their needs in the event of restructuring or wind-down.

Other financial market regulations

The modernisation of financial market regulation continues to progress: for example, the partial revision of the Insurance Policies Act will enter into force on 1 January 2022. Three more laws will probably enter into force in 2023. These are: the Banking Act, with revised rules on bank restructuring and deposit insurance; the Collective Investment Schemes Act, with a new fund category for qualified investors; and the Insurance Oversight Act, which proposes to introduce a right to restructuring and a consumer protection-based regulatory and supervisory concept. Work on the implementing ordinances for all three acts is well underway; the consultations will be initiated in the first half of 2022.

Taxing the digital economy

On 8 October 2021, the OECD's Inclusive Framework, in which 141 member countries including Switzerland participate, fleshed out the key parameters for the future taxation of large, internationally active companies. These were published back in July 2021. The new rules are divided into two pillars and will affect large multinationals: Pillar 1 provides for a shift of taxing rights to market jurisdictions. This should apply to around 100 of the largest and most profitable companies. Pillar 2 provides for a minimum tax rate of at least 15% for companies operating internationally with more than EUR 750 million in annual turnover. The OECD is to work out the details by mid-2022. Switzerland is calling for the interests of small, robust economies to be taken into account. It is committed to rules that foster innovation and prosperity, that are applied uniformly worldwide and that are subject to a dispute resolution mechanism.

Double taxation agreements (DTAs)
DTAs prevent double taxation. They are an important element in promoting international economic activities. Switzerland has DTAs with over 100 states and is continuing to expand this network. In 2021, a new DTA was signed with Ethiopia, and the new DTAs with Bahrain, Brazil and Saudi Arabia entered into force. In addition, Switzerland signed protocols of amendment with Armenia, Japan and North Macedonia, while the protocols amending the DTAs with Cyprus, Liechtenstein and Malta entered into force.

G20
The group of 20 advanced and emerging economies (G20) is the main informal international forum for the coordination of economic policy and regulation. For several years now, Switzerland has regularly been invited to the Finance Track, where it actively participates in discussions on key issues regarding the global financial and economic system. Italy's G20 presidency in 2021 was entirely given over to coordination of the global response to the pandemic and the need for a longer-term outlook for a sustainable recovery. Indonesia will hold the G20 presidency in 2022 and, once again, Switzerland has been invited to all G20 Finance Track activities.


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International Monetary Fund (IMF)
The IMF's main task is to ensure the stability of the global financial and monetary system. As part of the measures to cushion the effects of the COVID-19 pandemic, the IMF allocated additional foreign exchange reserves to its members in the form of Special Drawing Rights totalling USD 650 billion. Switzerland pledged to contribute CHF 50 million to the IMF's Poverty Reduction and Growth Trust interest subsidies. Furthermore, the Federal Council submitted to Parliament the dispatch for a federal decree on continuing international monetary assistance for another five years from 2023.

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Financial Stability Board (FSB)
The FSB coordinates the creation and implementation of international standards on financial market regulation. In 2021, the work of the FSB was once again centred around the COVID-19 pandemic. The members' decisive response to the challenges thrown up by the pandemic stabilised the international financial system and limited the negative fallout for the real economy. Structural challenges exist in the non-banking sector, digitalisation (cybersecurity, crypto assets and stablecoins) and risks from climate change. Within the FSB, Switzerland is advocating internationally coordinated standards (level playing field) and proportionate implementation.

Exchange of information for tax purposes
Switzerland is committed to fighting tax evasion and profit shifting, and is implementing the relevant standards. Switzerland has been automatically exchanging information on financial accounts with partner states since 2017 (AEOI). In 2021, Switzerland sent information on around 3.3 million financial accounts to 96 countries and received information on around 2.1 million accounts. In addition, on 3 December 2021, the Federal Council initiated the consultation on introducing AEOI with 12 further states and territories. AEOI is scheduled to enter into force on 1 January 2023, and the first exchange of data should take place in 2024. Moreover, according to the 2021 peer review report (for the 2020 calendar year), information on advance tax rulings was spontaneously exchanged around 750 times. OECD recommendations fell year on year to only two. And country-by-country reports from multinationals were exchanged with 81 partner states. The OECD has once again assessed Switzerland's implementation of country-by-country reporting as compliant.

Mutual agreement procedures
If double taxation occurs despite a DTA, or if there is a risk of such double taxation occurring, taxpayers resident in Switzerland can apply to SIF for a mutual agreement procedure. Most procedures concern European countries. In the reference year of 2020, 181 international mutual agreement procedures were completed in Switzerland. The OECD praised the efficiency of these procedures in Switzerland as regards transfer pricing, describing it as world-leading.

Regulatory projects in 2021

Financial market regulation

Banking Act (BankA) and Banking Ordinance (BankO)	Revised rules for bank restructuring, deposit protection and segregation of intermediated securities	Act passed by Parliament, Ordinance being drafted Entry into force: start of 2023
Collective Investment Schemes Act (CISA) and Collective Investment Schemes Ordinance (CISO)	Creation of a new unregulated fund category exclusively for qualified investors (Limited Qualified Investor Fund; L-QIF)	Act passed by Parliament, Ordinance being drafted Entry into force: probably in the 2nd quarter 2023
Liquidity Ordinance (LiqO)	The revision is intended to ensure that systemically important banks hold sufficient liquidity to absorb losses better than other banks and cover their needs in the event of restructuring or wind-down	Entry into force: 1.7.2022
Insurance Oversight Act (IOA) and Insurance Oversight Ordinance (IOO)	Partial revision. Rules on the restructuring of insurance companies, introduction of customer categorisation, rules of conduct for the insurance industry	Act before Parliament, Ordinance being drafted Entry into force: first half of 2023 at the earliest
Insurance Policies Act (IPA)	Partial revision. Aim: strengthening the rights of insured parties	Entry into force: 1.1.2022

Combating money laundering

Anti-Money Laundering Act (AMLA) and Anti-Money Laundering Ordinance (AMLO)	Implementation of FATF recommendations. Measures applicable to financial intermediaries and to the supervision and control of precious metals (including used metals); transparency of associations	Entry into force: probably mid-2022 Consultation process for Ordinance: until 17.1.2022

Taxes

Federal Act and Ordinance on the International Automatic Exchange of Information on Tax Matters (AEOIA/AEOIO)	Implementation of the Global Forum's recommendations on the Swiss AEOI legal framework	Entry into force of Act and Ordinance: 1.1.2021
Federal Act on the Implementation of International Tax Agreements (ITAIA)	Total revision. Codification of current practice n international tax law to promote the legally secure implementation of mutual agreement procedures and other procedures	Entry into force: 1.1.2022

Digitalisation

Federal Act on the Adaptation of Federal Law to Developments in Distributed Ledger Technology, plus blanket ordinance	Amendments to ten federal acts, to improve framework conditions for blockchain and distributed ledger technology (DLT), plus the blanket ordinance with implementing provisions	Entry into force of Act and Ordinance: 1.8.2021