

Report on international financial and tax matters 2017



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Preface

Despite almost ten years having elapsed since the financial crisis, the economic environment remains difficult – and not just for the financial industry and the real economy, but also for the various state players. Compared to the situation that applied prior to 2007, global growth is weak. Not only are the benefits of expansionary monetary policy in key countries fading, they are also leading to the misallocation of capital and distorted exchange rates. Switzerland too is heavily affected by this phenomenon.

At the same time, we are seeing little progress at a global level in the area of financial, structural, and economic policy. Government debt ratios remain high and are in some cases even rising further, while growth-stimulating structural reforms are either non-existent or are of insufficient magnitude. Expansionary monetary policy means that high levels of debt can be cheaply financed in some cases.

Back in 2003, Switzerland introduced the debt brake mechanism with a view to forcing the political establishment to manage the country's long-term finances sustainably. The challenge now is to look to the future and set the appropriate course accordingly. Switzerland needs parameters that will allow the economy to both invest and grow.

Against this background, in October 2016 the Federal Council adopted the strategic directions with which it intends to shape Switzerland's financial market policy in future: while the implementation of globally recognised standards will remain a key policy thrust, existing national leeway should consistently be explored wherever possible, and the parameters in which the Swiss financial centre operates should be designed in a forward-looking and efficient way. This applies above all in view of the new technologies emerging against a backdrop of advancing digitalisation in the financial business.

This report is being published for the seventh time in 2017. It provides an account of the work undertaken over the last year and highlights the efforts being made to secure a stable, competitive, morally sound, and internationally respected financial and business centre.



Ueli Maurer
Head of the Federal Department of Finance

Overview

The past year was shaped by the following dossiers:

In the autumn, the Federal Council adopted a report that lays the **basis for a sustainable financial market policy**. The report sets out five strategic directions designed to strengthen the competitiveness of the Swiss financial centre (section 2.1).

A dynamic **fintech system** can make a key contribution to the quality of the Swiss financial centre and strengthen its competitiveness. With this in mind, the Federal Council announced in November that it intended to reduce the barriers to market entry that exist for providers in the fintech area and increase legal certainty for the industry as a whole (section 2.4).

At the invitation of China, Switzerland attended four summits of finance ministers and central bank governors of **G20** member states in 2016, as well as taking part in preparatory meetings of deputy ministers and deputy governors, and in various working groups that tackle financial and monetary issues (section 3.3).

In December, the **Financial Action Task Force (FATF)** published its fourth mutual evaluation report on Switzerland. Switzerland fares well in this report overall, achieving an above-average result compared to other countries already evaluated (section 3.5.2).

Over the year as a whole, Switzerland signed joint declarations with numerous countries on the introduction of the **automatic exchange of information (AEOI) in tax matters** on a reciprocal basis (section 4.2.1).

Following completion of its country review, the **Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum)** rated Switzerland as overall largely compliant in July. This positive evaluation reflects the progress made in recent years in implementing the international standard on the exchange of information upon request (section 4.3.1).

Most important events in 2016

- | | |
|---|---|
| <p>20.01. Federal Council opens consultation process on the introduction of AEOI with further countries</p> <p>24.02. International financial bodies discuss questions of sustainability: Federal Council defines Switzerland's role</p> <p>27.02. Switzerland attends summit of G20 finance ministers and central bank governors in Shanghai</p> <p>23.03. Federal Council adopts dispatch on tax information exchange agreement with Brazil</p> <p>30.03. Protocol amending double taxation agreement (DTA) between Switzerland and France enters into force</p> <p>14.04. Spring Meeting of the IMF and World Bank as well as summit of G20 finance ministers and central bank governors in Washington DC, with Swiss participation</p> <p>20.04. Federal Council appoints Jörg Gasser State Secretary for International Financial Matters in the FDF</p> <p>02.05. Switzerland opens financial dialogue with Iran</p> <p>11.05. Federal Council adopts amendment of the too-big-to-fail provisions</p> <p>12.05. Switzerland organises international workshop for the G20 to analyse environmental risks in the financial industry, with the involvement of the private sector</p> <p>10.06. Federal Council adopts dispatch on amendment of Tax Administrative Assistance Act</p> <p>13.07. Protocol amending DTA between Switzerland and Italy enters into force</p> <p>22.07. Switzerland participates in G20 summit of finance ministers and central bank governors in Chengdu, China</p> <p>26.07. Global Forum: Switzerland receives a good rating</p> <p>26.09. IMF praises Switzerland's robust economy and supports its economic policy course</p> <p>26.09. International cooperation in the tax area: Switzerland ratifies multilateral agreement on administrative assistance</p> | <p>30.09. Federal Council adopts dispatch on revision of Monetary Assistance Act</p> <p>30.09. Federal Council aims to make it easier under tax law for systemically important banks to build up equity capital</p> <p>06.10. Annual Meeting of IMF and World Bank as well as summit of G20 finance ministers and central bank governors in Washington DC, with Swiss participation</p> <p>20.10. Federal Council adopts strategic directions for future financial market policy</p> <p>02.11. Federal Council aims to reduce market entry barriers for fintech companies</p> <p>23.11. Federal Council adopts Ordinance on International Automatic Exchange of Information in Tax Matters</p> <p>23.11. Federal Council adopts dispatch on exchange of country-by-country reports</p> <p>23.11. Spontaneous exchange of information: Federal Council adopts new Tax Administrative Assistance Ordinance</p> <p>24.11. Formal adoption and publication of the multilateral instrument (MLI) for the implementation of agreement-related base erosion and profit shifting (BEPS) measures</p> <p>01.12. Federal Council opens consultation process on the introduction of AEOI with other countries</p> <p>07.12. Publication of fourth FATF mutual evaluation report on Switzerland</p> <p>22.12. DTA between Switzerland and Liechtenstein enters into force</p> |
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1 Environment

Outlook: Global economic growth is slowly picking up, but remains exposed to a number of risks. The International Monetary Fund (IMF) is forecasting growth of 3.4 percent for 2017. This positive development should be attributable to a modest improvement in growth in both advanced economies (1.8%) and emerging market and developing economies (4.6%).

1.1 International level

In 2016, the global economy recorded its lowest growth rate (3.1%) since the economic and financial crisis. Significant differences in economic growth were apparent in individual countries, particularly among emerging market and developing economies (4.2%), a phenomenon attributable to low commodity prices, but also to geopolitical developments. The situation was less volatile in the advanced economies, which for the most part recorded modest growth (1.6%). Despite the difficult environment, economic growth strengthened in Switzerland. The Federal Government's Expert Group is forecasting growth of 1.5 percent for 2016. The overvalued franc nevertheless remains a challenge for the Swiss economy.

The very low – and in some cases even negative – interest rates, which result from unprecedented, extraordinarily loose monetary policy, have reduced the public debt burden in several countries. As a parallel development, however, the indebtedness of both the advanced economies and the emerging market and developing economies increased in 2016 (see Figure 1). Consolidation efforts in this area have often proved to be insufficient. The global level of private indebtedness is also very high. These developments pose a very real threat, as a rise in interest rates would see this debt burden increase.

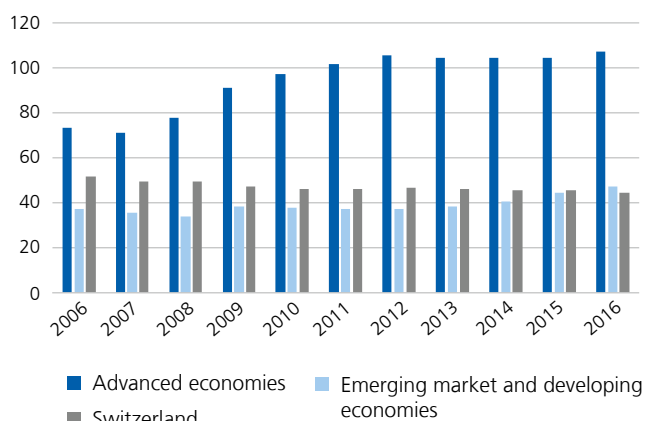
In this situation, which offers little leeway, the robustness of the financial sector is increasingly important. Financial stability has improved since the last crisis, among other things where the level and quality of banks' capital is concerned. However, numerous challenges still remain. Generally speaking, it is essential to clean up banks' balance sheets where still necessary, and

to focus on effective implementation of key measures such as the Basel III standards (see section 2.5). Equally important is the establishment of a level playing field.

For an open economy such as Switzerland and its financial centre of international importance, the potential increase in protectionism and isolationist tendencies represent a further challenge

Development of public debt

in % of GDP

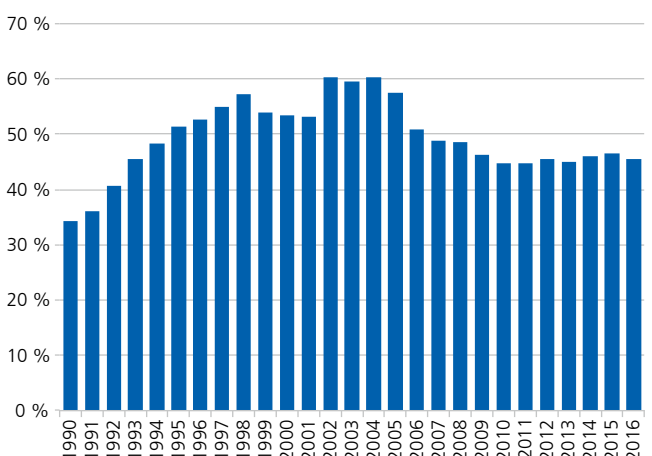


Source: IMF

Fig. 1

Public debt of Switzerland

in % of GDP



Source: IMF

Fig. 2

alongside the fragile global economic and financial situation. Against this backdrop, it is important for Switzerland to position itself as an advocate of open markets and the free movement of capital at both a multilateral and bilateral level, and to guarantee first-rate framework conditions at the national level.

1.2 Swiss financial market developments

The financial sector accounts for some 215,000 Swiss jobs (in FTEs full-time equivalents), or 5.6 percent of overall employment. Switzerland generates value added of just under CHF 60 billion in financial and insurance services. This corresponds to a share of 9.3 percent for the financial sector of gross domestic product (GDP), which is the lowest value recorded since 1995 (see Figure 3).

There were once again fewer banks active in the Swiss financial centre at the end of 2015; the consolidation process in Swiss banking is therefore continuing unabated. 266 institutions currently have a banking licence, which is around a third fewer banks than 20 years ago. This is the result of restructurings, takeovers, and bankruptcies. A particularly striking development is the decline in the number of foreign-controlled banks by some 40 institutions since 2010. This group of banks is therefore responsible for over two thirds of the decline of all financial institutions over the last five years.

The Swiss financial centre is the leading global location for the cross-border management of private assets. Its corresponding market share amounts to some 25 percent. According to a study produced by Boston Consulting Group, Switzerland can be expected to remain the leading centre for cross-border wealth management up to 2020, despite high growth rates being forecast for both Singapore and Hong Kong (see Figure 4). Switzerland owes its strong position in this area above all to political stability, its central position in Europe, its high service quality, the function of the Swiss franc as a safe haven currency, and last but not least the stability of its financial system.

Alongside the banks, insurance companies and pension funds also form part of the financial sector. At the end of 2015 there were 214 supervised insurers in Switzerland, of which more than

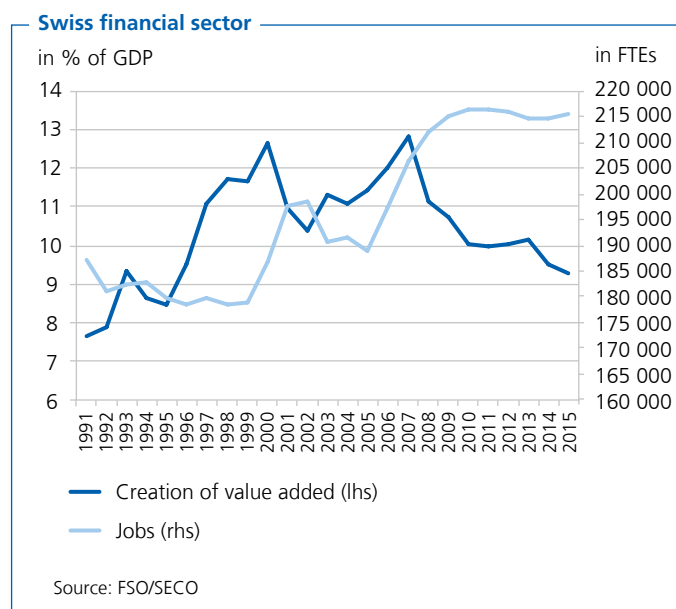


Fig. 3

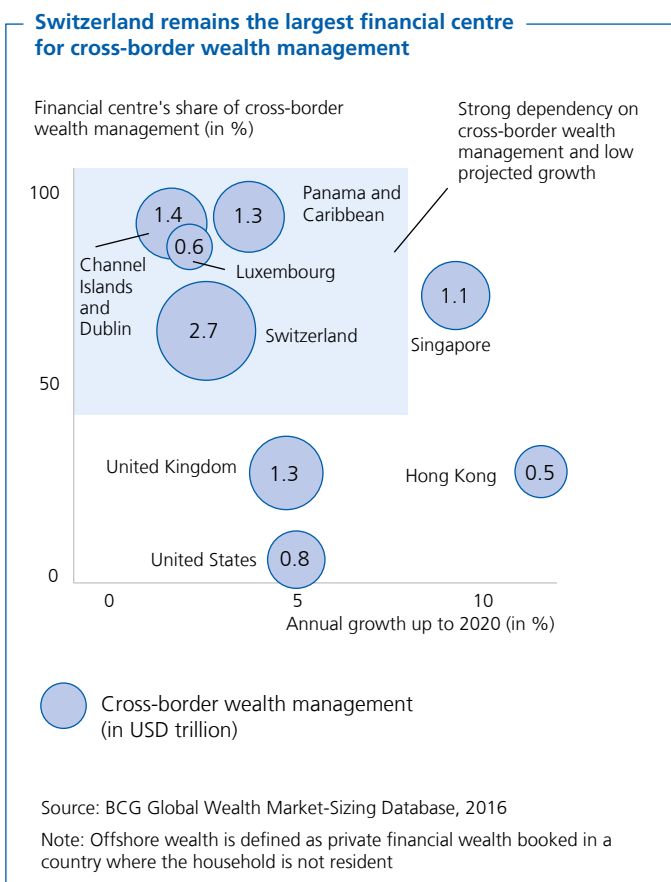


Fig. 4

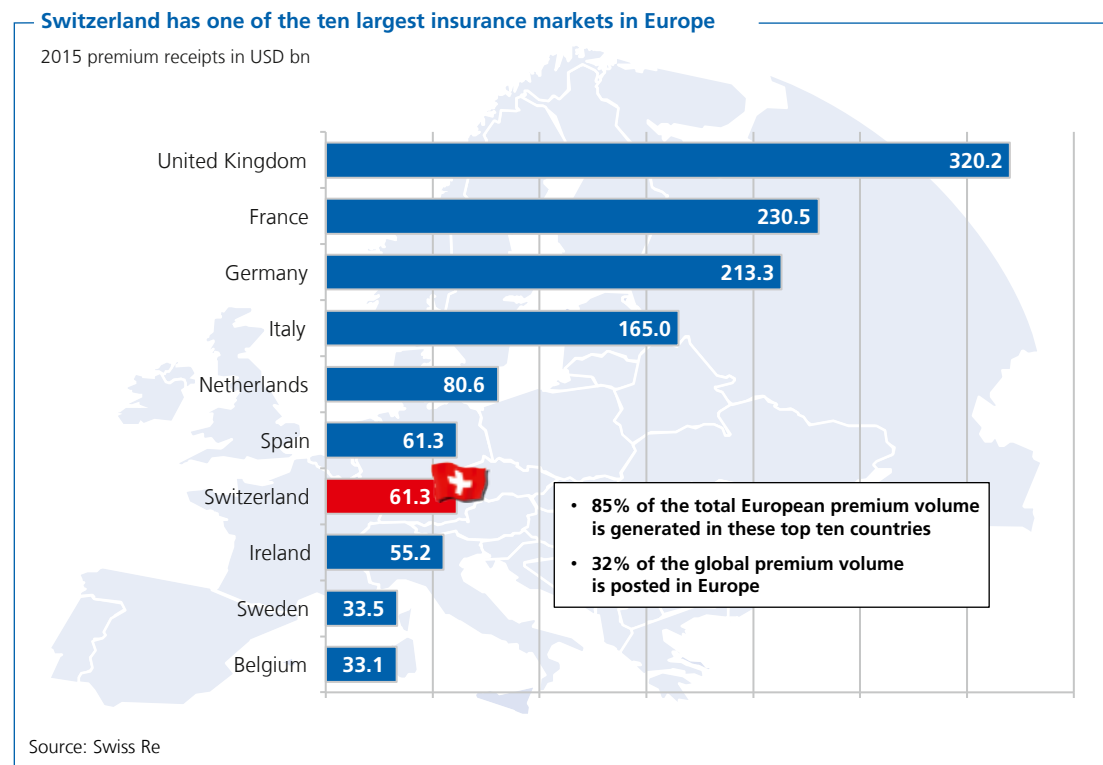


Fig. 5

half were indemnity insurers. The capital investments of the Swiss insurance industry amounted to CHF 565 billion as per the end of 2015. With premium income amounting to USD 61.3 billion in 2015, Switzerland ranked in sixth place alongside Spain in the league table of Europe's largest insurance markets (see Figure 5).

Another key player in the Swiss financial centre is the pension fund industry, comprising 1,866 institutions. At the end of 2014, pension fund institutions had invested capital amounting to CHF 777 billion.

2 Financial market policy

Outlook: In February 2017, the Federal Council opened a consultation process in the fintech area and will continue to grapple with the regulatory aspects of fintech going forward. Work to revise legislation in the insurance area will continue at a brisk pace in 2017. The Federal Council is planning to adopt the dispatch on the Insurance Policies Act by the summer of this year, and to put the revision of this legislation out to consultation in mid-2017. In addition, selected areas of existing regulation in the finance area are to be subjected to in-depth, independent evaluation, with a view to assessing their effectiveness and clarifying any need for further regulation or deregulation.

2.1 Overview

The Federal Council's financial market policy is geared towards legal certainty, predictability, and continuity. The policy's objectives and principles are correspondingly resolute. At the same time, it has to be sufficiently adaptable to be able to react in the best possible manner to developments in a rapidly changing financial environment.

A stable, well-functioning and competitive financial sector is a mainstay of the Swiss economy. The onus is on the state to ensure optimum parameters for the commercial activities of this sector. The Swiss financial centre should continue to assert its position as one of the world's leading centres for the financial business.

Switzerland's financial market policy

In October 2016, the Federal Council adopted a report in which it sketches out a forward-looking financial market policy. In its Financial market policy for a competitive Swiss financial centre, the Federal Council affirms the basis of its financial market policy and sets out the key strategic directions. The updating of policy in this area was needed, as the environment in which the Swiss financial centre operates has changed dramatically, and Switzerland has implemented an array of far-reaching reforms in the regulatory and tax areas over the last few years.

The Federal Council advocates a solid and at the same time dynamic financial market policy, which should on the one hand be geared around consistent objectives and principles, and on the other be sufficiently flexible to

adapt to the rapidly changing financial environment in the best possible way. The report is designed to serve as a compass that makes the Federal Council's policy comprehensible and predictable.

The five strategic directions for Switzerland's financial market policy show how opportunities for the Swiss financial centre are to be addressed and the various challenges met, and how its competitiveness is to be preserved. While the implementation of globally recognised standards will remain a key component of this policy, national leeway should be explored and the parameters in which the Swiss financial centre operates designed in a forward-looking and efficient way. This is particularly true with respect to new technologies.



Fig. 6

- In order to maintain and improve market access, bilateral agreements will be sought with partner countries. Where expedient from an economic perspective, EU recognition of the equivalence of Swiss financial market regulation will be sought. At the same time, the qualities of the Swiss financial centre should be emphasised abroad in collaboration with the industry itself.
- Against a backdrop of rapidly advancing digitalisation, the groundwork will be laid for innovative ideas and new business models to emerge in the finance area. Disproportionate barriers to market entry for fintech firms will be removed through adjustments to the legal framework (see section 2.4). The trend towards sustainability in the financial business likewise provides opportunities for financial institutions, for example through the incorporation of environmental factors and environmental risks into the investment process. These opportunities should be grasped.
- Regulatory processes will be further optimised, whereby the involvement of the industry itself is envisaged. Economic impact analyses will be initiated at an early stage and go into more depth as regulatory projects progress. Moreover, selected areas of financial market regulation will be reviewed by independent bodies. At an international level, the authorities are lobbying for consolidation of the international regulatory agenda, and would like to see greater attention given to the impact of regulation.
- The financial system's stability as well as its ability to function will be guaranteed. In accordance with its statutory mandate, the Federal Council will continue to carry out periodic reviews of its "too-big-to-fail" regime for systemically important banks. In addition, improvements will be made to the workings of depositor protection and consideration given to reducing systemic risks in the real estate market and in the area of occupational pensions.
- International compliance in the areas of tax money laundering will be ensured. In order to preserve a level playing field, Switzerland is committed to broad implementation of these global standards in international bodies. This underscores its willingness to make its own contribution to an international financial system in which integrity is enshrined.

2.2 Objectives and principles

The Federal Council pursues a robust and at the same time dynamic financial market policy that is geared towards the enduring objectives of quality, stability, and integrity. This still leaves sufficient leeway to allow for parameters to be adapted to a changing environment.

Competitive parameters are essential to the Swiss financial centre's ability to provide high-quality services for domestic and overseas clients. These include the preservation of market opportunities abroad, the availability of efficient infrastructures, and the ability to recruit qualified employees.

At the same time, the financial system should exhibit stability and be able to function reliably even in the event of a shock. Financial institutions that are systemically important both globally and nationally have a special risk profile in this respect: In the event of a crisis occurring, the risks posed by these institutions can lead to a general loss of confidence in the financial system as a whole.

Finally, clients and business partners can only trust a financial centre that is considered to have integrity. Violations of regulations and other abuses must therefore be punished consistently. In its regulatory and supervisory framework, Switzerland takes into account globally acknowledged standards.

These objectives are pursued while taking into account the long-term principles of state activity, which include the desirability of emphasising the appeal of a location and making use of any national leeway, as well as ensuring that the Swiss financial centre is embedded into the international financial system.

2.3 Market access

Legally assured parameters for market access for Swiss providers in key foreign markets are crucial to the future success of the Swiss financial centre. In order to create such a favourable environment, Switzerland pursues a number of different courses of action simultaneously:

2.3.1 Bilateral agreements

Switzerland seeks easier market access conditions bilaterally with selected partner countries. The aim is to strengthen legal certainty in the cross-border business from Switzerland.

In 2016, the dialogue with Italy and France over market access for financial services provided from Switzerland was continued and reinforced at a political level. With Spain too, Switzerland intensified its discussions at a technical level. In the case of Austria, Switzerland was able to obtain an agreement that the relief measures agreed in the context of the withholding tax agreement would also remain applicable following discontinuation of the agreement. In addition, in the context of joint declarations to introduce the automatic exchange of information (AEOI), Argentina, Brazil, Canada, Chile, Iceland, India, Israel, Japan, Mexico, Norway, South Africa, and South Korea all expressed their willingness to hold discussions with a view to improving the parameters for market access for financial providers.

2.3.2 Issues of market access vis-à-vis the EU

For Swiss providers, the guidelines and equivalence procedures for third countries that apply under EU legislation are important, as they can facilitate access to the EU's domestic market. A prerequisite for such access is often that the third country must have a regulatory and supervisory framework that is deemed to be equivalent.

In 2016, the Federal Department of Finance (FDF) once again strived to ensure that the EU authorities apply these third country regulations transparently and in a results-oriented way, and that they take sufficient account of the unique geographical situation of the Swiss financial centre at the heart of Europe. Key EU equivalence procedures with which the FDF was involved in 2016 include those relating to financial market infrastructures (derivatives regulation and recognition of trading exchanges), the cross-border business for professional investors, and the extension of the EU passport system for alternative investment funds to third countries. The latter development would mean alternative investment funds – a category that includes hedge funds and private equity funds – being able to pursue distribution activities across Europe from Switzerland.

Market access for Swiss financial providers in the EU could also be improved through a financial services agreement (FSA). This would give Swiss financial service providers comprehensive market access and put them on a level contractual footing with their EU counterparts. To achieve such a sector-based agreement, Switzerland would have to take over the parts of the EU *acquis* that are relevant to financial service providers.

Over the course of 2016, the FDF and the Federal Department of Foreign Affairs (FDFA) sounded out the various relevant parties to establish the level of interest. It became apparent that an FSA with the EU cannot be ruled out in principle as a long-term option. No discussions took place with the EU on the issue of an FSA, however.

2.4 Innovation

Be it paying by mobile phone, trading in virtual currencies, or crowdfunding: technological developments have opened up widespread potential to challenge existing business models in the financial area and at least accelerate structural change in the longer term. Accordingly, the State Secretariat for International Financial Matters (SIF) has been instructed by the Federal Council to review the extent to which disproportionate barriers to market entry exist for fintech companies under existing financial market legislation.

2.4.1 Identified market entry barriers

Existing legislation requires companies to meet relatively rigorous requirements before they can be issued with a banking licence by the Swiss Financial Market Supervisory Authority (FINMA). The reason for this is the fact that traditional banking activity – i.e. accepting deposits and granting loans – typically involves significant risks. By contrast, innovative fintech companies only offer their clients specific financial services, and accordingly have much lower risk profiles. Given this background, rigorous licensing requirements pose a barrier to market entry for innovative fintech companies.

Green Finance

The issue of sustainability in the finance area continues to gain global significance, and is becoming increasingly important to the Swiss financial centre too. Accordingly, in February 2016 the Federal Council laid down principles for a consistent approach in the area of financial market policy and the ecological dimension of sustainability. This was also particularly important in view of Switzerland's active engagement in the "Green Finance" working group of the G20.

In addition to its active participation in the corresponding international bodies, Switzerland also intensified its dialogue with the industry in 2016 on the issue of sustainability in the financial market area. This encompassed in particular questions of improvement in transparency as well as potential risks and opportunities for the financial centre. For financial service providers, the topic of "green finance" offers potential for growth and diversification and is thus also interesting in economic terms.

2.4.2 Key features of the new regulatory approach

In November 2016, the Federal Council presented its parameters for regulatory adjustments in the fintech area. It is pursuing an approach that contains three complementary elements. This approach makes no distinction in its regulatory treatment of specific business models, and is therefore forward-looking.

- The first element involves the setting of a deadline of 60 days for the holding of money in settlement accounts. The existing practice of the Swiss Financial Market Supervisory Authority (FINMA) involves a deadline of just seven days. Crowdfunding projects in particular should be simplified as a result.

- The second element is an innovation area: This would enable providers to accept public funds up to a total value of CHF 1 million, without this action being deemed commercial and therefore subject to regulatory approval.
- The third element is the creation of less stringent regulatory requirements for companies which accept public funds up to a maximum of CHF 100 million and are not active in the lending business. The lesser requirements relate in particular to capital requirements, accounting, auditing, and depositor protection.

2.4.3 Next steps

The Federal Department of Finance (FDF) will conduct additional clarifications to examine how further barriers to market entry for fintech firms can be reduced. For example, there is a need for clarification with respect to the legal treatment of assets based on blockchain technology as well as virtual currencies such as Bitcoin. The FDF will present a report on its work in this area to the Federal Council by the end of 2017.

2.5 Regulatory projects

2.5.1 Systemically important banks

For Switzerland, which is home to unusually large financial institutions both in an international comparison and in proportion to its size, the problem of systemically important banks poses a particular challenge. For that reason, Switzerland was relatively swift to draw the necessary regulatory lessons from the latest financial crisis, implementing a legislative draft to strengthen stability in the financial centre back in 2012.

The Federal Council is obliged to review these provisions for systemically important banks at the latest three years after their entry into force, and thereafter every two years, in order to establish how they measure up and the extent to which the corresponding international standards have been implemented abroad.

In its first evaluation report of this kind in February 2015, the Federal Council identified a need to act with respect to organisational and supervisory law measures, as well as with respect to the measures that apply in the event of a crisis. The corresponding adjustments entered into

force on 1 July 2016. The resilience of systemically important banks was further increased as a result, and the possibility of restructuring an institution or winding it up in an orderly way without recourse to public funds was likewise further improved. Thanks to the new provisions, Switzerland now ranks among the world's leading countries in terms of its capital requirements for globally systemically important banks. Furthermore, it also meets the standard for total loss-absorbing capacity (TLAC). This increases the stability of the financial centre, which is a competitive advantage.

One aspect not yet concretised is the requirement for domestically-oriented systemically important banks to raise additional capital for the eventuality of resolution. However, such capital could also be used to continue systemically important functions in a separate entity and wind up the other entities without recourse to public funds ("gone concern" requirements). In May 2016, the Federal Council announced that it would concretise this "gone concern" requirement in a specific report. The Federal Council intends to adopt this report in the spring of 2017.

2.5.2 Deposit insurance

By way of a response to the financial crisis, the Federal Council strengthened depositor protection in 2011 by increasing the extent of privileged and secured deposits from CHF 30,000 to CHF 100,000. A legislative draft that envisaged significantly more extensive adjustments failed to obtain the necessary support. In December 2014, the Group of experts for the further development of financial market strategy submitted its recommendations to the Federal Council, which in particular included a shortening of the payout period together with a review of the financing model and the appropriateness of the existing system ceiling. In May 2015 the Federal Council welcomed a swift improvement and review of the existing system, and instructed the Federal Department of Finance (FDF) to conduct an analysis and elaborate a position paper. Following collaboration with the Swiss National Bank (SNB) and the Swiss Financial Market Supervisory Authority (FINMA), the FDF completed its analysis of the strengths and weaknesses of the deposit protection system by mid-2016. After taking soundings from the affected industry, the State Secretariat for International

Financial Matters (SIF) will submit its findings and potential improvement proposals to the Federal Council in the first half of 2017.

2.5.3 Basel III

Basel III is a comprehensive reform package drawn up by the Basel Committee for Banking Supervision (BCBS) with a view to strengthening regulation, oversight, and risk management in the banking sector. The aim is to improve the resilience of the banking sector in the event of shocks from stress situations in the finance sector and the economy. In addition, risk management and management structures are to be improved and the transparency and disclosure of banks strengthened.

The incorporation of further elements of Basel III into national legislation is envisaged between 2017 and 2019. The ratio for short-term liquidity (Liquidity Coverage Ratio, LCR) entered into force together with the Liquidity Ordinance (LiqO) on 1 January 2013. This ratio is to be introduced on a staggered basis, and must be completely fulfilled by 1 January 2019.

The ratio for structural liquidity (Net Stable Funding Ratio, NSFR) will enter into force on 1 January 2018. In 2017, the Federal Council will resolve upon the partial revision of the LiqO, with the Swiss Financial Market Supervisory Authority (FINMA) expected to resolve upon the partial revision of its corresponding circular. As a result of this approach, Switzerland will continue to fulfil the guidelines of the Basel Committee on implementation of Basel III.

2.5.4 Financial Services Act / Financial Institutions Act

The Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) pursue the goal of strengthening client protection, promoting the competitiveness of the Swiss financial centre, and creating a level playing field for all financial service providers. The FinSA sets out the requirements that apply for the provision of financial services. The FinIA envisages differentiated supervisory treatment of financial institutions involved in the management of client assets in some form.

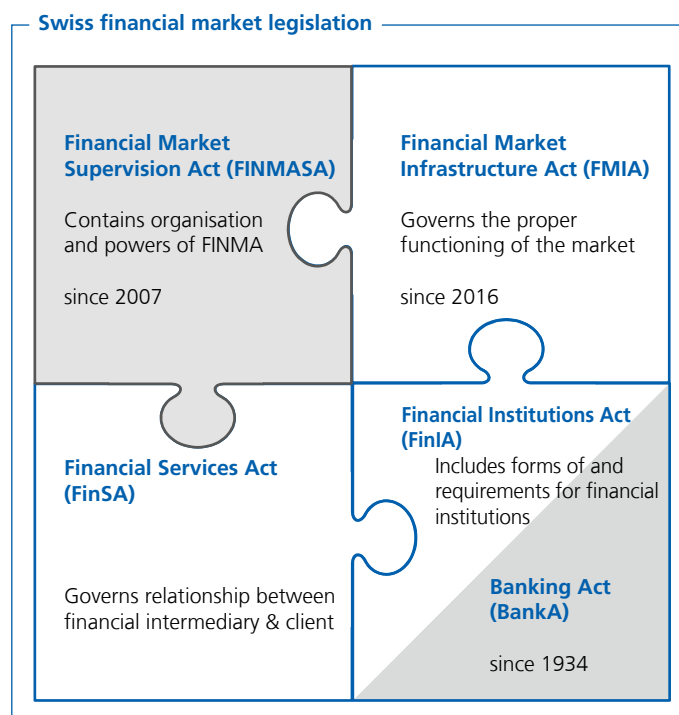


Fig. 7

The Federal Council adopted a dispatch on the two bills in November 2015. The Council of States became the first parliamentary chamber to approve the bills in its winter session in December 2016. The National Council will tackle the drafts in 2017.

2.5.5 Insurance Policies Act

The Insurance Policies Act (IPA) regulates the contractual relationship between insurance companies and their clients. In March 2013, Parliament rejected a total revision of the IPA, while at the same time instructing the Federal Council to conduct a partial revision and setting a number of different requirements.

The Federal Council put the partially revised IPA out to consultation in the second quarter of 2016. The draft reflects the concerns raised by Parliament. In addition, a number of smaller amendments deemed to have been appropriate by the relevant steering group are now envisaged.

The adoption of the corresponding dispatch by the Federal Council vis-à-vis Parliament is planned for 2017, which could then see the partially revised IPA enter into force at the start of 2019.

2.5.6 Insurance Supervision Act

The Insurance Supervision Act (ISA) regulates the activity of private insurance companies in Switzerland and makes them subject to oversight by the Swiss Financial Market Supervisory Authority (FINMA). For example, it contains regulations on business management, actuarial provisions for the financial liabilities of insurers vis-à-vis their clients, and equity capital. It also goes into the specific details of life insurance, indemnity insurance, and supplementary health insurance.

In September 2016, the Federal Council instructed the Federal Department of Finance (FDF) to undertake a draft revision of the ISA together with other authorities and the insurance industry itself. Among other things, this revision is designed to create a legal basis for a restructuring to be initiated rather than a bankruptcy – as long as this is in the interests of the insured – in the event of an insurance company's insolvency. In addition, a review will be undertaken into a potential relaxation of client protection for professional large clients. The FDF is planning to open the corresponding consultation in the second half of 2017.

2.5.7 Financial Market Structure Ordinance

On 1 January 2016, the Financial Market Infrastructure Act (FMIA) and the Financial Market Infrastructure Ordinance (FMIO) entered into force. The transition period that applies for financial market infrastructures and participants in a trading venue was deliberately aligned with the date on which the corresponding EU regulations (MiFID II / MiFIR) were supposed to come into effect. However, as the timetable for implementation of the latter has been postponed by a year, the Federal Council decided in August 2016 that the transitional periods set out in the FMIO should likewise be extended by a year. The analogous regulation that applies to securities dealers in the Stock Exchange Ordinance (SESTO) was likewise amended.

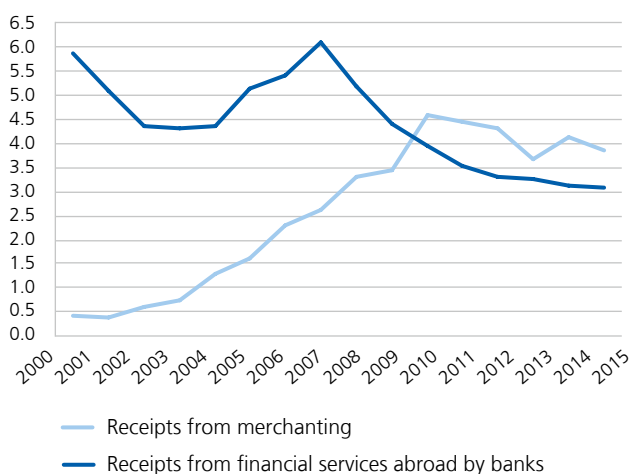
2.6 Commodities trading

The commodity sector, and in particular commodities trading, is an important branch of economic activity in Switzerland. Although the revenues from transit trading have proved lower in the last three years than they did during the peak years of 2010-2012, they still account for some 3.8 percent of Swiss gross domestic product (GDP, see Figure 8). The competition between locations in this area has become fiercer, and the importance of having good and reliable parameters in Switzerland is therefore also increasing.

Whereas interest in the issue of commodities has tended to decline at an international level, the industry remains a focus of the political establishment at a national level. In December 2016, the Federal Council approved the third status report on the implementation of the recommendations made in the "Background report on commodities" of March 2013. More significant progress has been made in strengthening the parameters of the commodities industry further

Great significance of commodity trading for Switzerland

Receipts from merchanting and financial services abroad by banks
in % of GDP



Source: SNB, own calculation

Fig. 8

and reducing risks since the last status report in August 2015. In addition, dialogue with players outside of the federal administration and within the interdepartmental platform on commodities has been advanced.

The direction of current work in this area – preserving the existing parameters of the commodities industry and reducing risks (including those relating to reputation), among other things through increased transparency – has proven itself. Moreover, the Federal Council continues to consider it expedient for Switzerland to participate actively in the further development and implementation of multilateral standards in the commodities sector. However, an internationally coordinated approach is important here if Swiss companies are to avoid being disadvantaged in what is a fierce competition between locations.

Overall, the status of implementation is well advanced for many of the recommendations, and in some cases the recommendations have already been fully implemented. Other recommendations are of a more permanent nature, and their degree of implementation is more difficult to evaluate. The interdepartmental platform on commodities will continue its work in this area. The Federal Council is confident that the recommendations will be largely implemented in the next one to two years. It has therefore instructed the interdepartmental platform on commodities to reassess the situation of the Swiss commodities industry with respect to its competitiveness, integrity, the environment, and other aspects by November 2018.

3 International financial and monetary questions

Outlook: Work to strengthen the international financial and monetary system is continuing. In 2017, the International Monetary Fund (IMF) will review its lending instruments, the resources needed to finance crisis programmes, and the provision of these resources by its members. The Financial Stability Board (FSB) will continue to drive forward consistent and global implementation of agreed standards on financial market regulation in 2017. In particular, it will devote its time to the stability of financial market infrastructures, the effects of initiated reforms, and now also digitalisation. Switzerland will submit its first follow-up report to the Financial Action Task Force (FATF) in February 2018; in this report, it will set out the measures with which it intends to implement the recommendations from the fourth mutual evaluation report in order to improve Swiss legislation and its application. At the invitation of Germany, which holds the G20 presidency for 2017, Switzerland will continue to make a proactive contribution to work undertaken in the G20 Finance Track.

3.1 Overview

The regular resources of the International Monetary Fund (IMF), which are provided through the quotas of member countries, were increased in 2016 as part of the implementation of the 2010 reform of quotas and governance. In addition, the voting rights of the Executive Board of the IMF were adjusted in favour of emerging countries. In September 2016, the Federal Council submitted its dispatch on the revision of the Monetary Assistance Act to Parliament. The most recent country evaluation for Switzerland was completed by the IMF in autumn 2016. The IMF generally supports Switzerland's economic policies, including monetary policy.

Switzerland again participated in the Finance Track of the G20 in 2016 at the invitation of China. It had access to information first hand and was able to more effectively represent its interests at the international level, to have exchanges with those of like mind and strengthen Switzerland's reputation as a country that constructively brings its concerns to bear here.

The work of the Financial Action Task Force (FATF) focused on the new strategy on combating terrorist financing. Items on the agenda included transparency with respect to beneficial ownership of legal entities and trusts, as well as guidance on correspondent banking. Switzerland was assessed by the FATF in 2016. It fared well overall, particularly by comparison with other countries.

In the bilateral sphere, financial dialogues with key partner countries were continued. In the area of customs and indirect taxes, Switzerland has concluded bilateral administrative assistance agreements with the EU and a number of individual countries.

3.2 International monetary cooperation

3.2.1 General

The principal task of the International Monetary Fund (IMF) is to oversee the macroeconomic developments and policies in its member states. In doing so, it helps to ensure the stability of the international financial and monetary system. In addition, the IMF offers its members technical assistance to strengthen the formulation and implementation of economic policies. These activities play a crucial role in preventing crises. If a crisis nonetheless arises, the IMF can support its members with financial assistance. This assistance is always tied to a reform programme that paves the way for a return to sustainable growth. In the wake of the financial and economic crisis, the IMF approved a number of financial assistance packages (see Figure 11), thereby committing a significant proportion of its resources (see Figure 9).

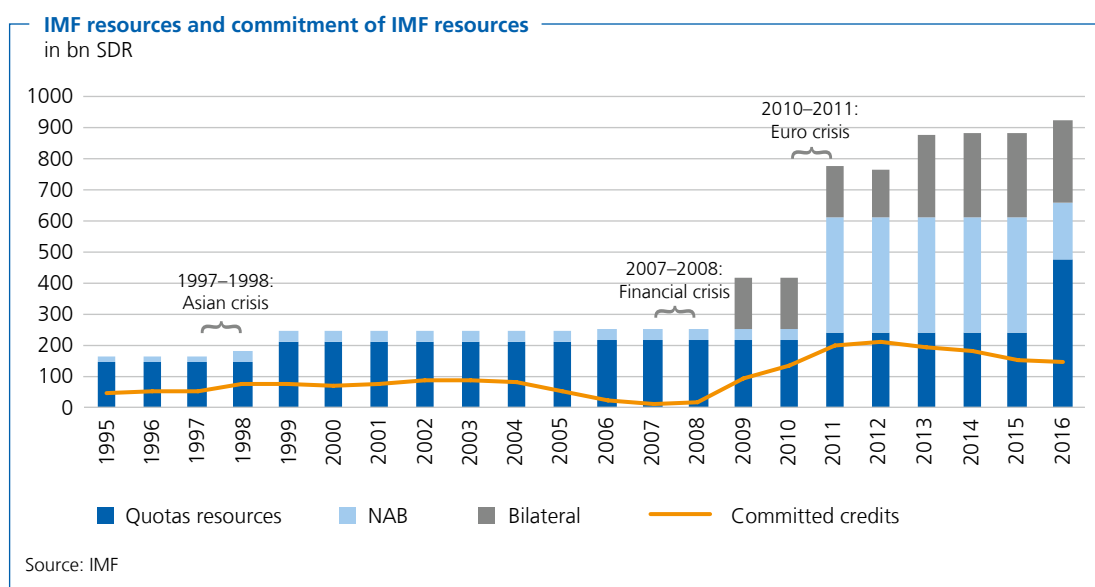


Fig. 9

3.2.2 Status of IMF reforms

The regular resources of the IMF – the first line of defence – consist of the quotas of its member countries (see Figure 10, first column). The overall quotas currently amount to around 477 billion Special Drawing Rights (SDR; one SDR currently corresponds to roughly CHF 1.40), i.e. some CHF 670 billion. As part of the 14th General Review of Quotas implemented in 2016, the quotas of member countries were doubled (see Figure 9). The weighting of the quotas shifted significantly in favour of emerging economies. In parallel, the New Arrangements to Borrow (NAB) – as an exceptional source of financing and the second line of defence against crises (see Figure 10, second column) – were reduced by approximately the same amount. In addition, 34 countries provide the IMF with temporary bilateral credit lines – the third line of defence – amounting to a total of SDR 263 billion.

Certain elements of the 2010 quota and governance reform still need to be implemented. Following the entry into force of the 14th General Review of Quotas, work began on the 15th Review of Quotas in the fourth quarter of 2016. This work will probably be able to be completed in 2019.

One aspect of the 2010 quota and governance reform of 2010 that has not yet been fully imple-

mented is the transfer of two Executive Board seats from advanced European countries to emerging and developing countries. In this context, Switzerland agreed in 2012 to rotate its Executive Board seat with Poland in a two-year cycle from 2014 onwards. Since November 2016, the Executive Board has therefore included a Polish Executive Director for the first time. Switzerland continues to lead its constituency at the IMF and the World Bank and is a member of the two ministerial steering committees of the IMF and World Bank, namely the International Finance and Monetary Committee and the Development Committee.

3.2.3 Swiss monetary assistance

Revision of Monetary Assistance Act and Monetary Assistance Decree

The global repercussions of the recent crises have led to significant changes in the international financial system and international financial architecture. As an open and dynamic economy with an important financial centre and its own currency, Switzerland is reliant on a stable international financial and monetary system. Switzerland has participated in international assistance initiatives, including monetary assistance in the IMF context, for many years. Switzerland's participation in monetary assistance measures reflects its status in the international financial system and

IMF resources and Switzerland's contributions				
	1st line of defence	2nd line of defence	3rd line of defence	PRGT
Objective	General IMF resources	Multilateral resources for extraordinary crisis situations	Additional bilateral contributions for serious crises	Contributions to poorer countries
Funds	Quota (provided by SNB)	NAB (provided by SNB)	Monetary assistance (provided by SNB, generally federal guarantee)	
Legal basis	Participation Act	Federal Decree on joining NAB	Monetary assistance decree based on MAA	Federal Decree based on Monetary Assistance Act (MAA)

Source: SIF

Fig. 10

allows it to voice its views on financial stability issues in the relevant international bodies credibly and effectively.

The monetary assistance provided by Switzerland is closely aligned with the IMF's lending instruments. These have undergone a number of changes in recent years to take account of the changing requirements of the global economy and international financial system. In September 2016, the Federal Council submitted a dispatch to Parliament for the revision of the Monetary Assistance Act (MAA).

The aim of this legislative revision is to ensure that Switzerland can continue to participate in measures to stabilise the international monetary and financial system. Two amendments are at the centre of the revision. First, the maximum term for the provision of monetary assistance in systemic crisis situations is to be increased from seven to ten years to match the terms of the IMF's instruments. Second, the ability of the Federal Council to request that the Swiss National Bank (SNB) grant a loan or a guarantee in the case of monetary assistance to individual countries is to be clarified.

Among other things, the MAA enables Switzerland to provide monetary assistance in cases of

systemic crises or to individual countries. Such monetary assistance is granted through a revolving framework credit of CHF 10 billion that is approved by the two chambers of Parliament by simple federal decree (Monetary Assistance Decree). The Federal Council is proposing the next extension of the Monetary Assistance Decree – by a further five years from 2018 onwards – in tandem with the revision of the MAA. The extension of the Monetary Assistance Decree is designed to ensure that Switzerland can continue to participate rapidly and reliably in monetary assistance measures in the future.

Switzerland has indicated its willingness in principle to make a bilateral contribution to the IMF's resources once the revision of the MAA is complete.

Poverty Reduction and Growth Trust (PRGT)

The International Monetary Fund (IMF) grants loans on concessional terms to its lowest-income member countries through its Poverty Reduction and Growth Trust (PRGT) (see Figure 10, fourth column). These loans are designed to support structural adjustment in low-income countries and reforms that help bring these members on a path of sustainable economic growth and development. Switzerland has contributed to the IMF's special facilities for low-income countries since 1988.

In order to ensure that the IMF has the capacity to lend to low-income countries beyond 2016, the IMF has solicited further contributions from members, including Switzerland, to boost the PRGT loan resources. Switzerland's last contribution to the PRGT loan resources was made in 2011. The request for additional resources is due to the fact that the IMF increased the upper limits of its credit lines to poorer countries in July 2015, and that PRGT lending has risen above the IMF's envisaged annual average lending capacity. Finally, as a result of the uncertain global economic situation, the IMF expects a rise in lending. The Monetary Assistance Act (MAA) enables Switzerland to make contributions to low-income countries within the framework of the IMF. The Federal Council can submit a request to the Swiss National Bank (SNB) to grant a loan with a guarantee from the federal government. In order to provide the corresponding guarantee, the Federal Council submitted a dispatch to the Federal Assembly for a funding commitment amounting to CHF 800 million in September 2016.

Outstanding Swiss funds

As a result of the adjustment of overall quotas, Switzerland's IMF quota has increased from special drawing rights (SDR) 3.5 billion to SDR 5.8 billion. As a result of the simultaneous roll-back of the New Arrangements to Borrow (NAB), Switzerland's participation in the NAB has declined from a maximum of SDR 11 billion to SDR 5.5 billion. Compared to the previous year, Switzerland's maximum potential contribution to the IMF's resources has decreased, namely from SDR 14.5 billion to SDR 11.3 billion.

Committed resources as part of programmes financed through general IMF resources amounted to roughly SDR 160 billion at the end of 2016. Of this amount, approximately SDR 50 billion was effectively drawn (see Figure 11 for a breakdown of committed and drawn IMF resources by programme country). Of the resources made available by Switzerland, the IMF had drawn approximately SDR 13 million from the quotas and some SDR 970 million from the NAB as per the end of 2016. The decline in committed resources since September 2012 (see Figure 9) is due to the stabilisation of the global economy and the expansion of regional financing mechanisms, most notably in the eurozone. In 2015, the Federal Council decided that Swit-

zerland should participate in the internationally coordinated assistance package for Ukraine with a bilateral credit line of up to USD 200 million from the Swiss National Bank (SNB). The credit line is part of a broadly-based coordinated assistance package of the international community to stabilise the country financially, consisting of an IMF programme as well as bilateral support from donor countries. On the basis of the Monetary Assistance Act (MAA), the federal government guarantees timely reimbursement and interest payments. Following the approval of the second review of the IMF programme, Switzerland will transfer an initial tranche at the beginning of 2017.

Switzerland's participation in the Poverty Reduction and Growth Trust (PRGT) is secured through loans from the SNB. This involves the federal government guaranteeing their timely repayment, including interest. The federal government also makes separate contributions to finance the interest subsidy. At the end of 2016, the overall PRGT resources already committed amounted to approximately SDR 8 billion, of which some SDR 6.5 billion was already drawn. Of the amount committed by Switzerland, namely SDR 570 million, the IMF had drawn SDR 114 million as per the end of 2016. In addition, Switzerland is making annual contributions of CHF 10 million to the interest account of the PRGT over the period 2014-2018 to subsidise the interest on the loans.

At the beginning of 2016, Switzerland contributed CHF 2.3 million to the IMF's Catastrophe Containment and Relief (CCR) Trust. The CCR Trust was created in February 2015 to offer relief to poorer countries affected by natural catastrophes and severe epidemics by reducing their debt service payment obligations to the IMF. Switzerland's contribution to the trust was covered by a sum carried over from a previous trust, so no new resources had to be committed. The corresponding funds were transferred internally within the IMF. This transfer was approved by the Federal Assembly as part of the 2016 budget.

In selected areas of technical assistance, Switzerland maintains a close partnership with the IMF, both bilaterally and together with other countries (see section 3.6). In November 2016, for example, the Federal Department of Finance (FDF) signed a Memorandum of Understanding

with Turkmenistan on collaboration between the respective finance ministries.

3.2.4 Country Review of Switzerland

The dialogue with the experts of the International Monetary Fund (IMF), as part of the annual review coordinated by the State Secretariat for International Financial Matters (SIF), provides the IMF with a differentiated picture of Swiss economic policy. In its report on the 2016 Country Review for Switzerland, the IMF stated that it expects the Swiss economy to recover thanks to its remarkable resilience and adaptability. The IMF recommended pursuing the current monetary and fiscal policy approach and suggested only selective adjustments.

The IMF continues to support the monetary policy of the Swiss National Bank (SNB), which involves negative interest rates to reduce the upward pressure on the franc on the one hand, and a readiness to intervene in the foreign exchange market where necessary on the other. It identified potential risks stemming from international financial market developments as well as domestic developments related to the mortgage market and the real estate sector in particular. In view of the decline in public debt over the last few years, the IMF’s experts consider the federal government’s fiscal policy to be somewhat restrictive. However, the IMF believes Switzerland has sufficient fiscal buffers that it could exploit in case of a crisis. Moreover, the IMF supports the structural reforms already initiated by Switzerland, as well as the implementation of more rigorous capital standards for banks.

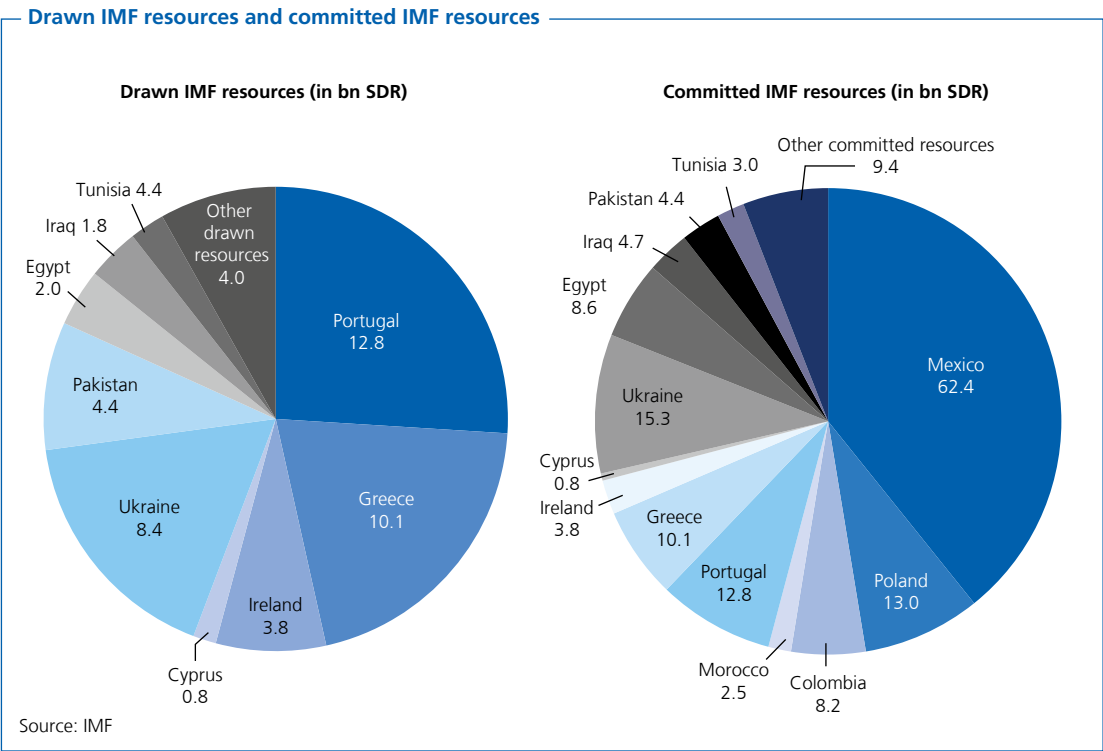


Fig. 11

25th Anniversary of Membership in Bretton Woods Institutions

Switzerland has now been a member of the IMF and the World Bank, the Bretton Woods institutions (BWI), for 25 years. The Swiss electorate voted strongly in favour of accession back in May 1992.

Since its accession in 1992, Switzerland has headed a constituency at the IMF – and also at the World Bank – that currently comprises Azerbaijan, Kazakhstan, Kyrgyzstan, Poland, Serbia, Tajikistan, and Turkmenistan. Thanks to its seat on the IMF Executive Board and its membership in the International Monetary and Financial Committee, the ministerial steering body of the IMF, Switzerland is able to play an active role in the IMF's decision-making. Switzerland believes the IMF should remain transparent and continue to focus on its mandate of securing the stability of the international financial and monetary

system. In addition to the adherence to clear rules and principles, this also includes the ability to respond quickly to a changing environment. This is the only way the IMF can remain a credible, potent, and financially robust institution that treats its members fairly and justly. On this basis, Switzerland will continue its commitment to strengthening systemic stability and helping develop conditions conducive to trade and growth.

The global financial crisis made clear that the IMF has a great role to play when it comes to monitoring the financial sectors of its member states, and that its expertise in this area must be further developed. As things stand, the membership of the IMF comprises 189 nations.

Important players in the international financial architecture

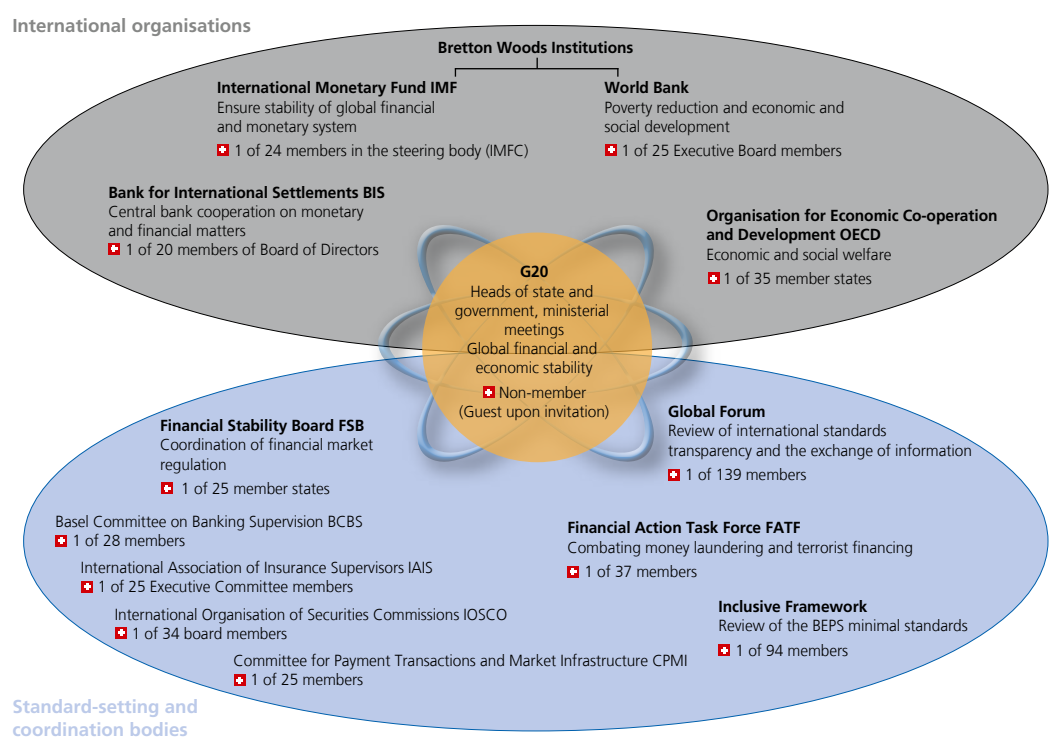


Fig. 12

3.3 G20

The G20 is the informal forum of the leading industrialised and emerging countries. Since the first summit of the corresponding heads of state and government in 2008, the G20 has delivered crucial stimuli for coordinated reforms at a global level. At the same time, the G20 relies on the analytical skills of international organisations such as the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the Financial Stability Board (FSB). Key issues relating to the global financial and economic system are addressed via the Finance Track, while other questions such as development and climate policy are covered in the Sherpa Track. Due to the importance of its financial centre and currency, and given its role as a reliable partner and creditor in the international financial system, Switzerland has a role to play in the Finance Track. The Finance Track culminates in the summit of finance ministers and central bank governors, who establish the direction of policy in their respective areas and forward the corresponding recommendations to the annual summit of G20 heads of state and government.

In 2016, China held the presidency of the G20. Key issues covered during its G20 presidency included the state of the global economy together with the orientation and global coordination of economic policy, the reform of the international monetary and financial system, reforms in the area of financial market regulation, international tax issues, initiatives in the area of combating terrorist financing, and "green finance".

At China's invitation, Switzerland once again took part in the Finance Track of the G20. In addition, Switzerland was invited to participate in the anti-corruption working group of the G20,

which is part of the Sherpa Track. On the one hand, this has allowed Switzerland to express its views and make an active contribution to the future course of action. On the other, the summits of the G20 enable Switzerland to cultivate valuable contacts at both ministerial and technical levels. Thanks to its expertise and experience in areas such as the financial sector and budget policy, Switzerland can provide added value to these bodies, which in turn enables it to put forward its views credibly.

In the latest rotation, Germany took over the presidency of the G20 on 1 December 2016. Under the German presidency too, Switzerland will continue to participate in 2017 at all working levels of the Finance Track and in the work of the anti-corruption working group. Argentina will take over the presidency from Germany in 2018.

3.4 International financial market regulation

The Financial Stability Board (FSB), which is based in Basel at the Bank for International Settlements (BIS), works together with other international bodies to coordinate international work in the area of financial market regulation and oversight. The interests of Switzerland, which holds two seats on the FSB, are represented by the Federal Department of Finance (FDF) and the Swiss National Bank (SNB). The Swiss Financial Market Supervisory Authority (FINMA) is also involved in the work of the FSB through various working groups (see Figure 14).

The work of the FSB is increasingly focused on assessing effective implementation of international standards in the financial market area. On the basis of theme-specific analyses and country-specific evaluations ("peer reviews") as well as various progress reports, the FSB reviews

G20 rotating presidencies – regional groups				
Group 1	Group 2	Group 3	Group 4	Group 5
China	France	Argentina	India	Australia
Indonesia	Germany	Brazil	Russia	Canada
Japan	Italy	Mexico	South Africa	Saudi Arabia
South Korea	United Kingdom		Turkey	United States

Fig. 13

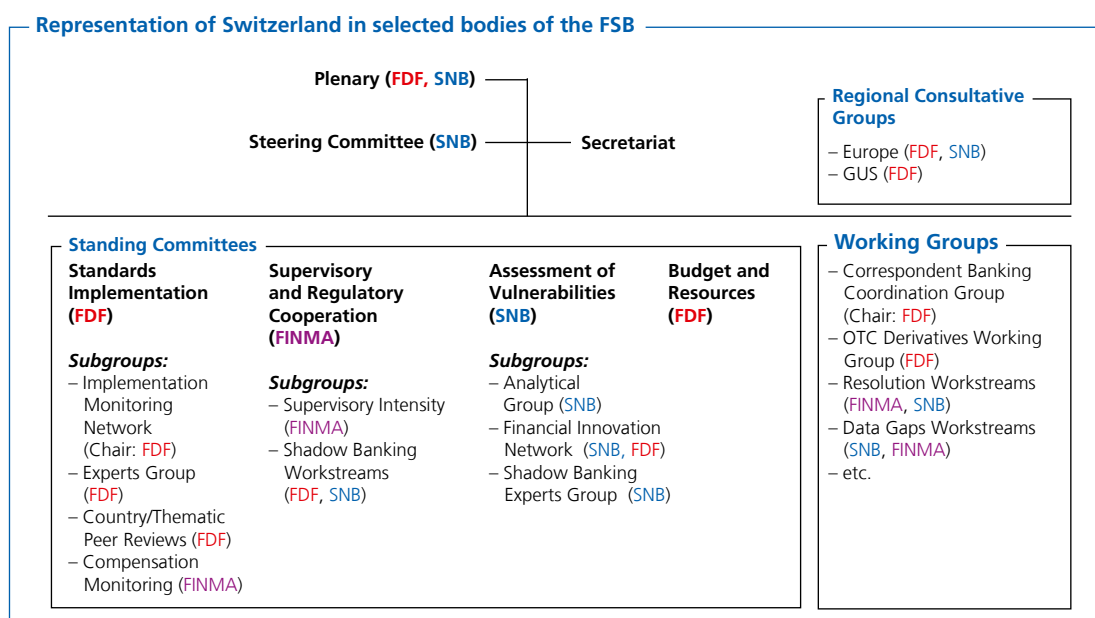


Fig. 14

whether agreed reforms have been implemented. These evaluations are supplemented by the Implementation Monitoring Network, which is headed by the FDF and draws up an annual overview of implementation of numerous reforms in member countries. The FSB is now working on the elaboration of an evaluation framework, due for completion by July 2017, which will measure the effectiveness of the reforms of the G20 and the FSB. Findings on the status of the global reform agenda have been incorporated into the annual reports of the FSB since 2015.

The FSB continues to work to contain the risks to financial stability posed by globally systemically important financial institutions. The FSB standard on total loss-absorbing capacity (TLAC) for globally systemically important banks (G-SIBs) in the event of resolution, which was adopted by the FSB in November 2015, will now be introduced in the corresponding FSB member countries in phases. The TLAC requirements are designed to ensure that sufficient capital is available in the event of a crisis to stabilise or resolve a G-SIB without recourse to public funds. The list of G-SIBs comprises 30 institutions, including the two big Swiss banks.

Globally systemically important insurers (G-SIIs) also face more rigorous capital requirements, among others. Nine insurance groups are cur-

rently classified as G-SIIs, although none of these are Swiss. In a parallel development, the International Association of Insurance Supervisors (IAIS) is drawing up an international capital standard (ICS) for around 50 internationally active insurance groups. Such a standard is welcome given the desirability of a level playing field.

By way of a supplement to preventative regulations of this kind, the FSB has drawn up standards for the resolution of systemically important financial institutions. The peer review on these FSB standards, which was completed in 2016, identified potential for improvements in implementation in FSB member countries. Switzerland will continue to push for further progress through the FSB channel, specifically in the area of cross-border co-operation.

The FSB and the relevant standard-setting bodies are also working on standards and recommendations for enhanced resilience, recovery, and resolvability of financial market infrastructures, particularly central counterparties. This work is due to be finalised in 2017. Switzerland has updated and expanded its legal and supervisory framework for financial market infrastructures with its new Financial Market Infrastructure Act (FMIA), which is aligned with international standards.

Further priorities of the FSB are the implementation of reforms relating to the regulation of over-the-counter (OTC) derivatives markets, the decline in correspondent banking, the monitoring of the shadow banking system, the digitalisation of financial industry and the disclosure of climate-related financial risks.

3.5 Financial market integrity

3.5.1 Financial Action Task Force

The Financial Action Task Force (FATF) is an international leading body established to combat money laundering and terrorist financing. It has issued 40 recommendations and regularly reviews implementation of these recommendations in the national legislation of its member countries.

The focus of FATF activities in 2016 lay primarily on the combating of terrorist financing. In February, the FATF adopted a new strategy in this area, which entailed the corresponding implementation work. Among other things, the FATF has published a compilation of all FATF standards that deal with the exchange of information at either a national or international level. In addition, the FATF made a number of limited adjustments to its standards, whereby these concerned non-profit organisations and the criminal offence of terrorist financing in particular.

In addition, the FATF focused its attention on transparency with respect to beneficial ownership of legal entities and trusts, on the one hand evaluating international standards in this area and on the other looking at forms of institutional collaboration with other organisations (specifically the Global Forum, see section 4.3.1). Closer cooperation with the Global Forum should have the effect of avoiding duplication in work undertaken at an international level while at the same time strengthening the consistency of standards in this area. Switzerland will be actively involved in the further discussions that are planned.

In October 2016, guidance on correspondent banking was adopted with contributions from the Financial Stability Board (FSB, see section 3.4) and the private sector.

Finally, the mutual evaluation reports on Singapore, Austria, Canada, and the United States were all adopted by the FATF in 2016. These countries will now be subject to a follow-up process. Moreover, the FATF endorsed the mutual evaluation report on Switzerland (see section 3.5.2) and published this in December 2016.

3.5.2 Fourth FATF mutual evaluation report of Switzerland

In 2016, Switzerland was subjected to the FATF fourth round of mutual evaluations. This round comprises two parts: the evaluation of the technical compliance of measures to combat money laundering and terrorist financing with the FATF's 40 recommendations of 2012, as well as the evaluation of the effectiveness of these measures in eleven thematic areas.

The overall result can be described as good. No significant gap was found, and the result of the effectiveness review was very positive. The effectiveness of Swiss measures has been evaluated as "substantial" in seven out of the eleven reviewed areas. This result exceeds the average of the FATF members evaluated so far (cf. Figure 15).

The report recognises the following strengths in particular: understanding of the risks (including the quality of the report on the national evaluation of the risks of money laundering and terrorist financing in Switzerland, which was published in June 2015), analysis of financial information by the Money Laundering Reporting Office Switzerland (MROS) and its use in the context of criminal investigations, the activity of the criminal authorities – specifically at the federal level – in connection with the prosecution of money laundering and terrorist financing, the confiscation of assets, and implementation of targeted financial sanctions related to terrorist financing and the financing of weapons of mass destruction. Switzerland's effectiveness in all these areas has been assessed as "substantial".

By contrast, the FATF has identified a need for improvement in the areas of international cooperation, supervision of financial intermediaries, preventive measures, and the transparency of legal entities and arrangements. In these areas, Switzerland achieves only a moderate level of effectiveness.

With respect to technical compliance, the FATF arrives at the conclusion that while the Swiss measures are robust, there are still a number of shortcomings, particularly in connection with preventive measures and the subjection to the anti-money laundering regime of legal professionals in respect of certain non-financial activities. Overall, the implementation of 31 out of 40 recommendations is assessed as “compliant” or “largely compliant”.

Switzerland will now be subject to an FATF follow-up process, and will have to submit an initial report in February 2018. This should include the measures Switzerland is planning to take in order to eliminate the identified shortcomings, specifically in the area of technical compliance. Switzerland will then be subject to a follow-up evaluation in five years, as part of which the aspect of effectiveness in particular is to be reviewed.

4th FATF mutual evaluation cycle

Results of the evaluation of the effectiveness of Switzerland's system compared with that of the other FATF members evaluated up to the end of 2016

Country	Effectiveness										
	1	2	3	4	5	6	7	8	9	10	11
Switzerland	SE	ME	ME	ME	ME	SE	SE	SE	SE	SE	SE
Australia	SE	HE	ME	ME	ME	SE	ME	ME	SE	ME	SE
Austria	ME	SE	ME	ME	ME	LE	LE	ME	SE	ME	SE
Belgium	SE	SE	ME	ME	ME	SE	ME	ME	SE	ME	ME
Canada	SE	SE	SE	ME	LE	ME	ME	ME	SE	SE	ME
Italy	SE	SE	ME	ME	SE	SE	SE	SE	SE	ME	SE
Malaysia	SE	ME	SE	ME	ME	SE	ME	ME	ME	SE	ME
Norway	ME	SE	ME	ME	ME	ME	ME	ME	SE	ME	ME
Singapore	SE	SE	ME	ME	ME	SE	ME	ME	LE	ME	SE
Spain	SE	SE	SE	ME	SE	HE	SE	SE	SE	ME	ME
United States	SE	SE	ME	ME	LE	SE	SE	HE	HE	HE	HE

Key:

- 1: Comprehension of risks
- 2: International cooperation
- 3: Supervision of financial intermediaries
- 4: Preventive measures
- 5: Transparency of legal entities and arrangements
- 6: Use of financial intelligence
- 7: ML investigation & prosecution
- 8: Confiscation
- 9: TF investigation & prosecution
- 10: Protection of non-profit organisations from abuse and targeted financial sanctions with regard to terrorist financing
- 11: Targeted financial sanctions with regard to financing of proliferation of weapons of mass destruction

LE: Low level of effectiveness
 ME: Moderate level of effectiveness
 SE: Substantial level of effectiveness
 HE: High level of effectiveness

Fig. 15

3.5.3 Coordinating group on combating money laundering and the financing of terrorism

The main activity of the interdepartmental coordinating group on combating money laundering and the financing of terrorism (CGMT) in 2016 was preparation for the fourth mutual evaluation of Switzerland by the FATF. The CGMT institutionalised the dialogue with the financial sector. In addition, the technical subgroups of the CGMT continued their analyses of sector-based risks, including the risks of abuse on the part of non-profit organisations and the risks in the area of legal entities. In addition, work commenced in the real estate area in 2015 was continued, while risk management in connection with corresponding banking, terrorist financing, and new technologies (fintech) was discussed with the financial sector.

The CGMT also looked at various aspects preoccupying the FATF in the area of combating terrorist financing, as well as various questions relating to the Panama papers. It took note of the work undertaken by the subgroups and specified the next steps to be taken.

In 2017, the CGMT will be mainly preoccupied with the follow-up work relating to Switzerland's mutual evaluation report (see section 3.5.2).

3.6 Bilateral cooperation

3.6.1 Financial dialogues and closer relations with leading financial centres

Financial dialogues are aimed at establishing and cultivating high-level contacts with the authorities of important partner states that are involved in financial matters. They also form the basis for regular exchanges of opinions and experiences, as well as for collaboration in areas of mutual interest.

Financial dialogues encompass exchanges of views on the international financial system and financial market policy and regulation, as well as positioning in international financial forums and in the work of the G20 in the financial sector. In addition, financial dialogues provide an opportunity for Switzerland to bring the market access concerns of the Swiss financial centre to the attention of other countries, as well as air other bilateral issues with specific countries.

Through such contacts, Switzerland has been able to strengthen relationships with key countries, most notably G20 member states and other countries home to strategically important financial centres. For example, in 2016 Switzerland exchanged views through financial dialogues and other bilateral discussions with the likes of Argentina, Brazil, Canada, China, the EU, France, Germany, Hong Kong, India, Iran, Israel, Italy, Poland, Russia, Saudi Arabia, Singapore, Turkmenistan, the United Arab Emirates, the United Kingdom, and the USA.

Brexit

In June 2016, a majority of the electorate of the United Kingdom (UK) voted to leave the European Union (EU). Once the UK formally submits its exit intention to the European Council, it will have two years to negotiate an exit agreement. During this period, the UK will remain an EU member state and be bound by the EU's legal framework. Precisely what the UK is seeking by way of an EU-UK relationship in the area of financial services after this period ends is not yet known.

The Federal Department of Finance (FDF) is following developments in this area closely. With respect to the UK, the FDF is keen to ensure that legal certainty is preserved and strengthened in the financial area. The dialogue with the UK is important in order to regulate the reciprocal relationships that will have to be regulated on a bilateral basis after the UK's departure from the EU. The FDF was in close contact with UK partner authorities in 2016 with a view to strengthening relations in areas of mutual interest.

3.6.2 Activities in the customs area and provision of technical support

In the area of customs and indirect taxation, Switzerland has concluded bilateral administrative assistance agreements with the EU and its member states, as well as with Iceland, Israel, Norway, Colombia, Peru, the South African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland), and Turkey. An anti-fraud agreement has additionally been drawn up with

the EU and its member states. The agreement is designed above all to ensure compliance with customs and indirect taxation law in connection with the international trade in goods, as well as facilitating the detection and prosecution of the corresponding violations.

The Federal Customs Administration (FCA) provides regular administrative assistance as well as international legal assistance in criminal cases. Legal assistance frequently involves the handover of bank documentation.

The FCA also provides technical support to a number of partner countries, such as the countries that form part of Switzerland's IMF constituency. Passing on specific expert knowledge can

make a substantial contribution to increasing the efficiency of customs authorities. At the same time, a more professional customs clearance function and more effective combating of cross-border crime and terrorism can significantly facilitate the exchange of goods in global trade.

In the area of technical assistance, the Federal Department of Finance (FDF) has concluded agreements with certain countries of its IMF constituency. In addition, Switzerland is making a financial contribution to the work of the Global Forum in connection with the introduction of the automatic exchange of information in tax matters (see section 4.2.1) in poorer countries, above all in Africa.

4 International tax matters

Outlook: The introduction of the automatic exchange of information in tax matters (AEOI) with an increasing number of partner states will remain one of the key fiscal dossiers in 2017 too. This process will enable Switzerland to increase global tax transparency while at the same time ensuring that its own financial centre remains competitive. In addition, the issue of tax administrative assistance on request will once again be on Switzerland's agenda in 2017, as 2018 will see the next peer review of the Global Forum take place. At the end of 2016, the BEPS Inclusive Framework was initiated with the review of implementation of the minimum standard of the BEPS project.

4.1 Overview

In 2016, Switzerland expanded the network of partner states with which it wishes to reach an agreement on the automatic exchange of information (AEOI). It has now signed the corresponding joint declarations with an initial group of countries. In December 2016, the Federal Department of Finance (FDF) opened a consultation on the introduction of AEOI with an additional group of countries. Moreover, Switzerland created the legal basis in 2016 that enabled AEOI to be implemented with effect from 1 January 2017.

In 2016, Switzerland also ratified the Convention on Mutual Administrative Assistance in Tax Matters of the European Council and the Organisation for Economic Co-operation and Development (OECD). This agreement forms the basis for the spontaneous exchange of information.

Switzerland has committed to implementing the BEPS (base erosion and profit shifting) minimum standards. It has incorporated BEPS results into its third series of corporate tax reforms and is implementing further minimum standards. In addition, Switzerland is actively participating in the work of the BEPS Inclusive Framework, which seeks to incorporate relevant countries and territories into implementation of the BEPS recommendations, as well as being responsible for reviewing implementation of the corresponding minimum standards.

Tax administrative assistance upon request was likewise one of the key themes in 2016: Switzer-

land was rewarded for its progress in this area, and received a good mark ("largely compliant") in phase 2 of the peer review of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Finally, January 2016 saw the final institutions of the 80 banks of "category 2" sign a Non-Prosecution Agreement with the US Department of Justice (DOJ). In addition, the DOJ issued Non-Target Letters to five banks of category 3.

4.2 International standards in the tax area

4.2.1 OECD standard for the automatic exchange of information

Swiss and international legal parameters

The OECD's global standard for the automatic exchange of information in tax matters (AEOI) was adopted in 2014. Switzerland has committed itself to the AEOI standard. The legal basis necessary for implementing AEOI – the Council of Europe/OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (administrative assistance convention), the OECD's Multilateral Competent Authority Agreement Standard for Automatic Exchange of Financial Account Information (MCAA), the Federal Act on the International Automatic Exchange of Information in Tax Matters (AEIA) and the Ordinance on International Automatic Exchange of Information in Tax Matters – entered into force on 1 January 2017. In January 2017, the Federal Tax Administration (FTA) also published detailed guidelines for the implementation of AEOI by Swiss financial institutions.

Introduction of AEOI with partner states

At the beginning of 2016, Switzerland signed joint statements on the introduction of the AEOI with Iceland, Norway, Guernsey, Jersey, the Isle of Man, Japan, Canada and South Korea. The Federal Assembly approved the introduction of AEOI with these eight states and territories in December 2016. The corresponding activation of AEOI with these states and territories was effected on 1 January 2017. The activation of AEOI with Australia was also effected at this point, with the Federal Assembly having approved the introduction of AEOI with this country during its 2016 summer session.

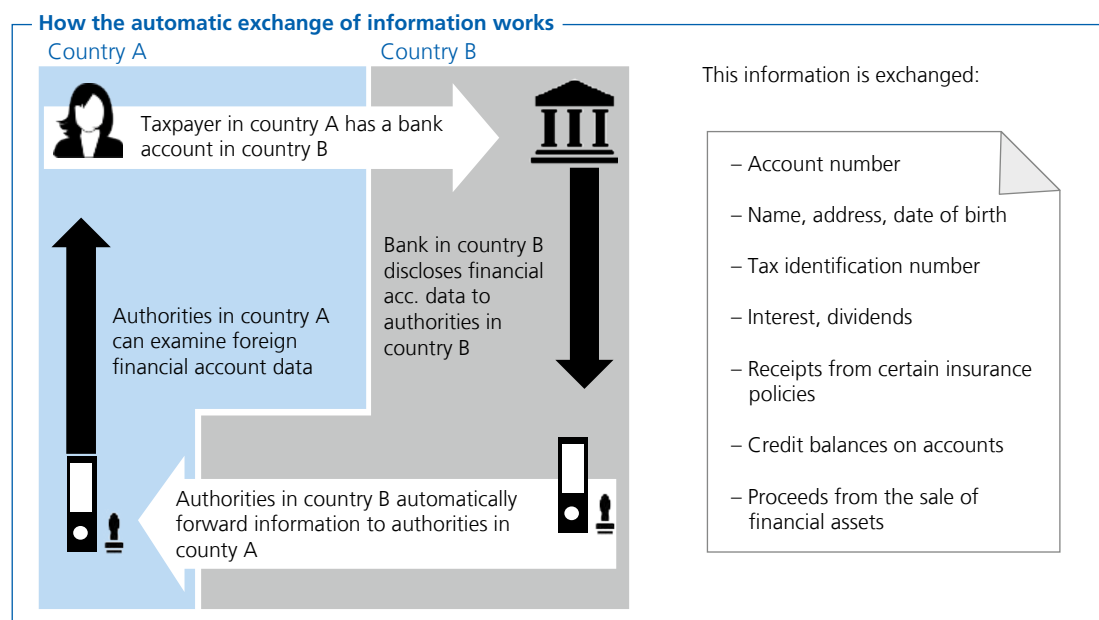


Fig. 16

From a legal perspective, Switzerland and the above-mentioned nine partner states and territories agreed AEOI on the basis of the Multilateral Competent Authority Agreement on the Standard for Automatic Exchange of Financial Account Information ("MCAA"). The MCAA is in turn based on Article 6 of the administrative assistance convention. It envisages the bilateral activation of AEOI between signatory states once both countries have enacted the administrative assistance convention into law, signed the associated MCAA, and confirmed that they have the necessary legislation in place to implement the AEOI standard.

In addition, AEOI is to be introduced with the 28 EU member states as well as Gibraltar on the basis of a bilateral AEOI agreement, which was endorsed by the Federal Assembly in the 2016 summer session and entered into force on 1 January 2017.

Switzerland therefore introduced AEOI with 38 states and territories on 1 January 2017. From this point onwards, financial institutions in Switzerland and in these partner states have been collating data. The mutual exchange of this information is envisaged from 2018 onwards.

Switzerland intends to expand its network of AEOI partner states, thereby meeting its international commitments while at the same time pursuing its strategy of ensuring a sustainable financial centre. Switzerland only embarks on discussions in this area with states that meet the criteria for the introduction of AEOI. This means countries which comply with the principle of speciality and can guarantee the confidentiality of the surrendered data. It is important to the Federal Council that the same "rules of play" apply to all countries, and in particular to all key financial centres. During the course of its discussions on the introduction of AEOI with other countries, Switzerland will also raise the issue of, and press for, potential improvements in market access for financial services.

In December 2016, the Federal Department of Finance (FDF) opened its consultation on the introduction of AEOI with a group of additional countries. The intention is to activate AEOI with these countries on 1 January 2018 so that the initial exchange of data can take place in 2019. This group includes the following countries: Andorra, Argentina, Barbados, Bermuda Islands, Brazil, the British Virgin Islands, the Cayman Islands, Chile, the Faroe Islands, Greenland,

Approval of the automatic exchange of information¹

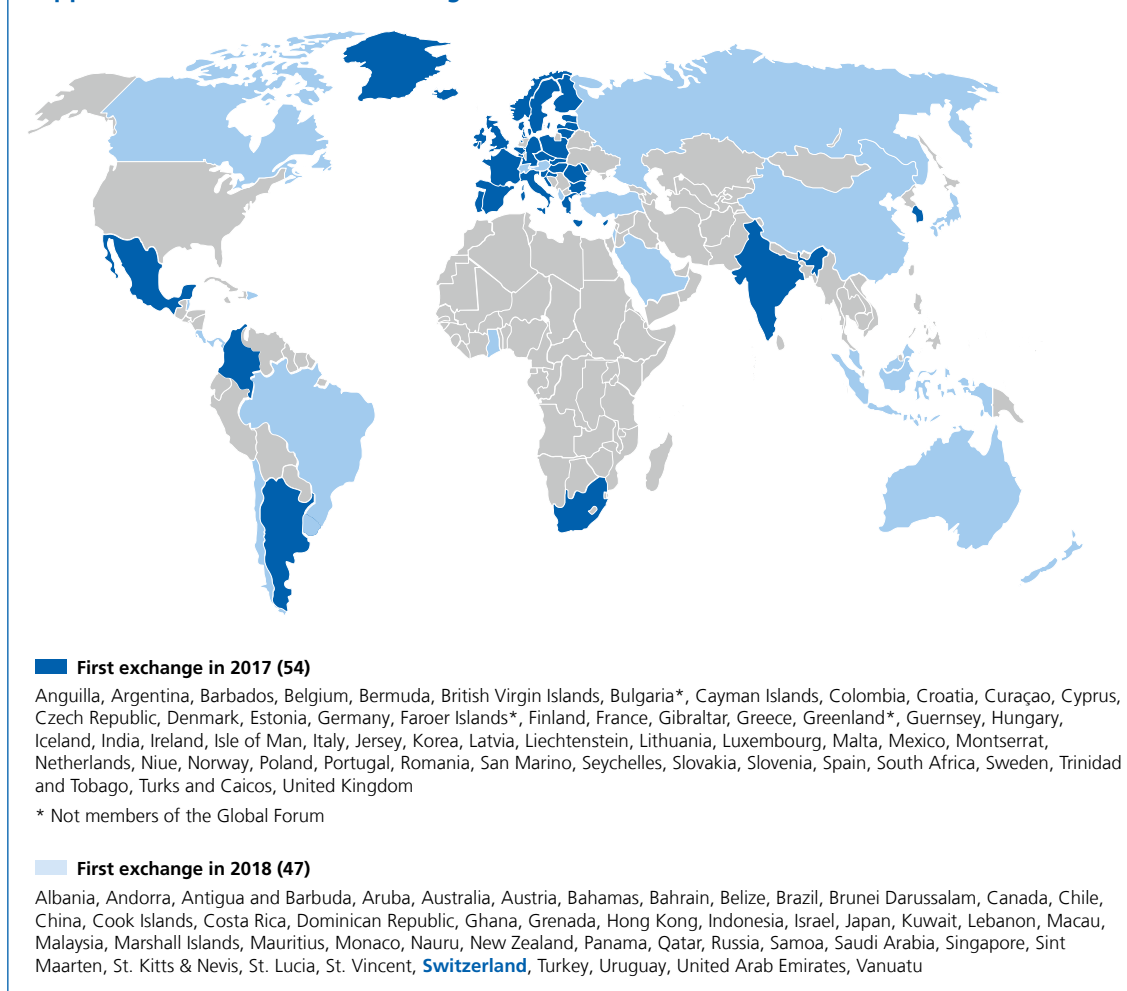


Fig. 17

India, Israel, Mauritius, Mexico, Monaco, New Zealand, San Marino, the Seychelles, South Africa, the Turks and Caicos Islands, and Uruguay.

The introduction of AEOI with other countries, including key G20 countries, will help to secure the competitiveness, international credibility, and integrity of the Swiss financial centre. Due to its international commitments and bearing in mind

the time required for the necessary parliamentary approval processes, Switzerland needs to act promptly.

International comparison

The countries that have decided to introduce AEOI at an early stage needed to state their planned next steps by September 2016. Almost all these “early adopters” have announced that they will exchange data automatically – based on

¹ The United States has announced that it is introducing the automatic exchange of information on the basis of its unilateral Foreign Account Tax Compliance Act (FATCA), and that it is concluding FATCA agreements with other jurisdictions to this end. Under the FATCA Model 1A agreements, the US recognises that it must achieve an equivalent level in the reciprocal automatic exchange of information with partner jurisdictions. Furthermore, the US has committed to improving transparency and strengthening its information exchange relationships with partner jurisdictions by driving forward the corresponding legislation that will enable it to achieve equivalence in the area of reciprocal automatic exchange.

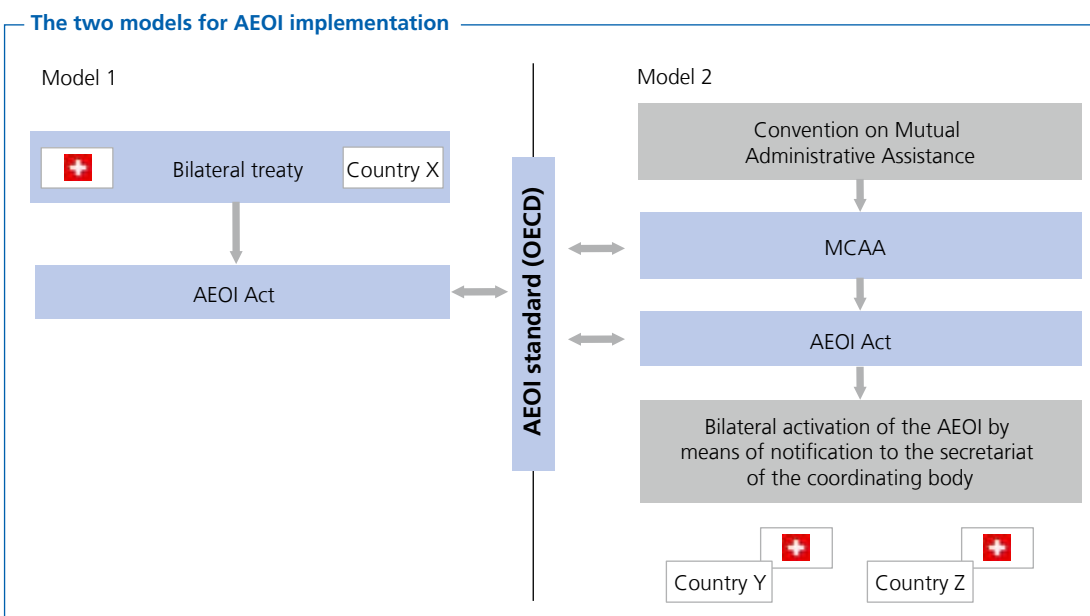


Fig. 18

the Multilateral Competent Authority Agreement on the Standard for Automatic Exchange of Financial Account Information (“MCAA”) – with all other early adopters in 2017. This will result in some 1,000 bilateral activations taking place in 2017.

Within the EU, almost all member states belong to this group of early adopters. These countries intend to exchange data automatically with all other early adopters (including Argentina, India, Mexico, South Korea, and South Africa) in 2017. A number of EU states, such as Germany, Italy, and Luxembourg, have expanded the group of partner states with which they intend to exchange data from 2017 onwards to all other G20 countries too (including China and Russia).

Liechtenstein has been implementing AEOI with EU member states since 1 January 2016, and will implement it with a further 32 countries from 1 January 2017.

4.2.2 Spontaneous exchange of information

In September 2016, Switzerland ratified the Council of Europe/OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (administrative assistance convention). The administrative assistance convention entered into force in Switzerland on 1 January 2017, and will be applicable to tax periods from 1 January 2018 onwards. This will have the effect of introducing the spontaneous exchange of information in tax matters internationally. The implementation of the spontaneous exchange of information will also be regulated by the revised Tax Administrative Assistance Act (TAAA). For implementation of the corresponding international standards, the Federal Council adopted the fully revised Tax Administrative Assistance Ordinance (TAAO) in November 2016 and enacted it into law on 1 January 2017. The cantons were also involved in this work. The new TAAO defines the framework and the necessary procedures for the spontaneous exchange of information, including those that apply in the case of tax rulings.

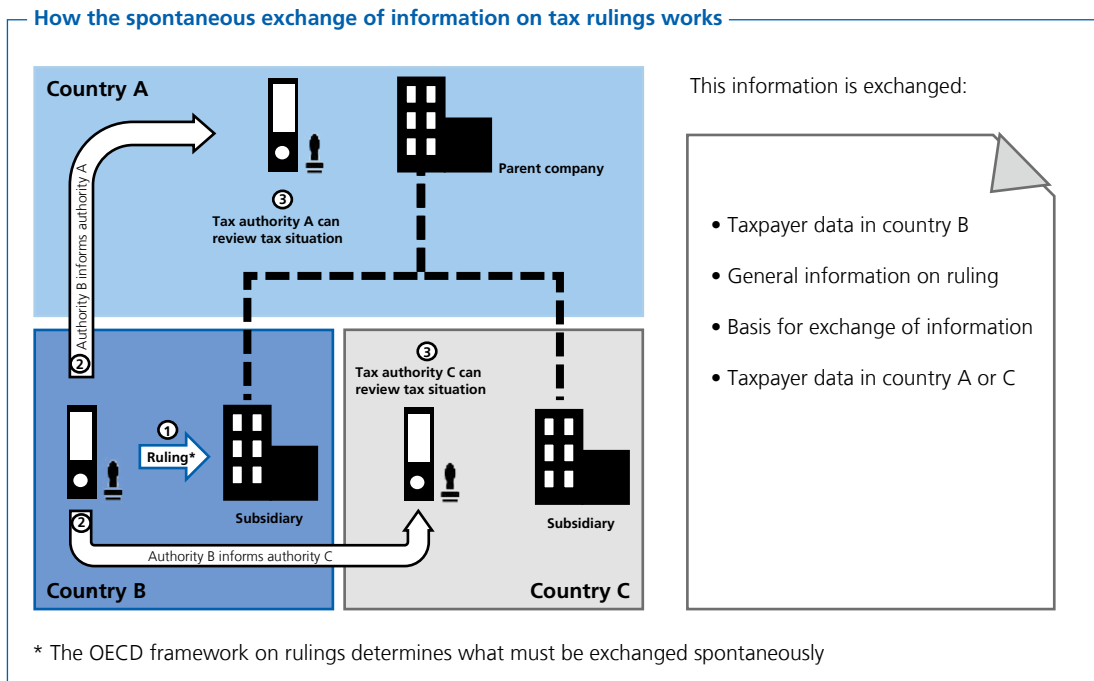


Fig. 19

4.2.3 Combating base erosion and profit shifting

In October 2015, after two years of work, the OECD endorsed the final results of its project to combat base erosion and profit shifting ("BEPS"), and is now working on a review of the corresponding minimum standards (see section 4.3.2). In addition, work began (and in some cases was completed) in the following areas in 2016:

- Challenges of the digital economy; The Task Force on the Digital Economy has elaborated a detailed mandate that was approved by the Inclusive Framework at its meeting in January 2017 (see section 4.3.2).
- Hybrid mismatch arrangements: Members of a newly created group will exchange findings gained during implementing of the so-called "common approach". This group is due to become a centre of competence.
- Limitation of interest deductions: The OECD has provided further detail on the common approach and published additional reports on the group approach and regulations for the

financial sector in January 2017. Work in this area has therefore been concluded.

- OECD guidelines for transfer pricing: The OECD has continued its work in this area too. Among other things, it has focused on hard-to-value intangibles and the attribution of profits to permanent establishments. The OECD intends to present its results in this area by mid-2017.

Even before adopting the BEPS results in October 2014, Switzerland incorporated the individual findings into its third series of corporate tax reforms, and is now implementing further minimum standards. In terms of content, it is adhering closely to the OECD recommendations. The situation at the end of 2016 can be summarised as follows:

- The third series of corporate tax reforms abolishes – subject to approval by the Swiss electorate in February 2017 – the tax regimes that are no longer accepted internationally. At the same time, a standard-compliant patent box concept is being introduced. The Federal

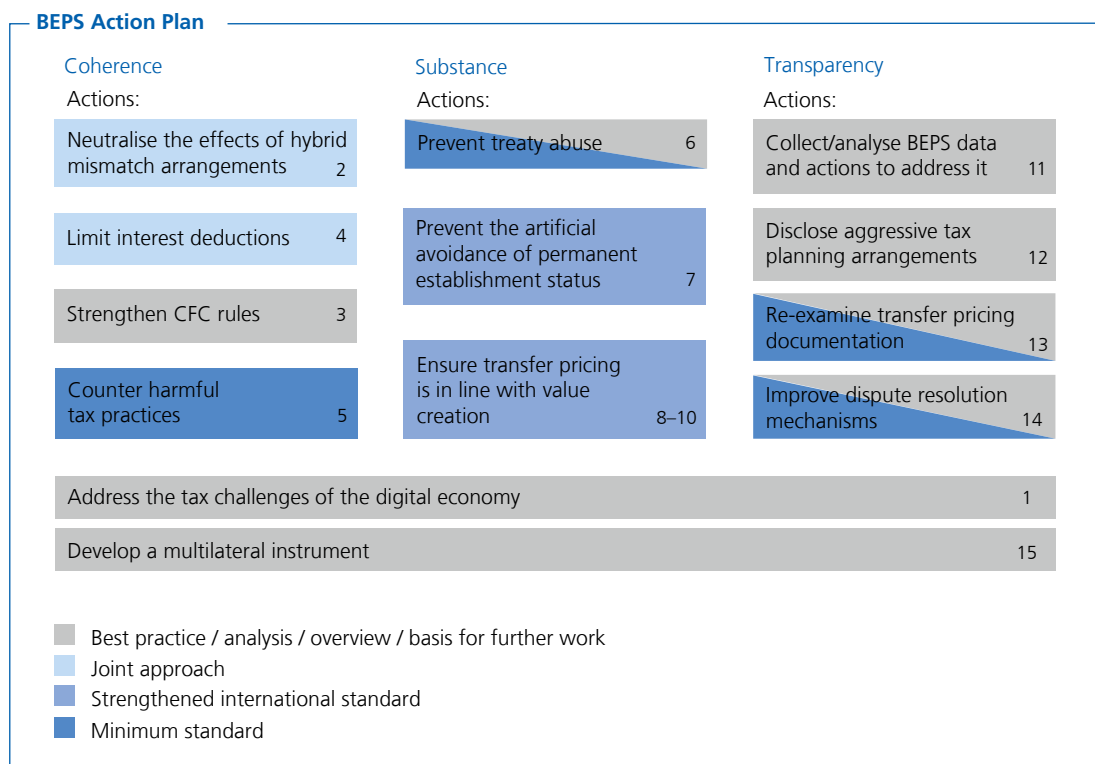


Fig. 20

Council will implement the new minimum standard for patent boxes through the Ordinance on the Tax Harmonisation Act.

- When negotiating new double taxation agreements (DTAs), Switzerland insists on certain provisions aimed at avoiding such agreements being abused. Existing agreements could be adjusted by means of a multilateral instrument (MLI, see section 4.3.3) or through bilateral negotiations.
- In November 2016, the Federal Council submitted a bill to Parliament that would make the introduction of the automatic exchange of country-by-country reporting for multinational enterprises mandatory in Switzerland from 2018 onwards.
- At the same time, it created the prerequisites for the spontaneous exchange of information on certain tax rulings through its total revision of the TAAO (see section 4.2.2). The spontaneous exchange of information should in principle take effect on 1 January 2018.

4.3 Review of implementation of international standards

4.3.1 Global Forum on Transparency and Exchange of Information for Tax Purposes

Review of phase 2 for Switzerland

The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) investigates via so-called “peer reviews” whether its member states are complying with administrative assistance standards at an international level and applying them uniformly. Comprising 139 members, the Global Forum is the largest international organisation in the tax area. Switzerland is represented in the 19-member Steering Group, the 30-member Peer Review Group, and the Automatic Exchange of Information Group (AEOI Group).

The peer review process is conducted in two phases. Phase 1 is concerned with the legal and regulatory parameters for tax administrative

assistance on request in the state in question. Phase 2 evaluates the implementation of this administrative assistance in practice. Following the completion of phase 2, each country receives a global rating.

In July 2016, the Global Forum published Switzerland's peer review for phase 2. In this review, Switzerland received the rating of largely compliant.

The reviews are based on valuation criteria known as "terms of reference". A list of individual elements is evaluated. Each aspect is then assigned a determination of compliant, largely compliant, partially compliant, or non-compliant. With its overall rating of largely compliant, Switzerland has fared just as well as other important financial centres such as Singapore and Liechtenstein.

The rating indicates that Switzerland complies with international standards in the area of tax transparency. This should be seen as a success that will make a decisive contribution to the reputation of the Swiss financial centre.

Switzerland made progress above all in the following areas:

- It has introduced an exception to the notification procedure in the Tax Administrative Assistance Act (TAAA). This brings Switzerland into line with the international standard.
- It has significantly expanded its network of double taxation agreements (DTAs) and tax information exchange agreements (TIEAs). Since the entry into force of the administrative assistance convention on 1 January 2017, Switzerland has been able to exchange standard-compliant information with more than 100 states and territories (see Figure 23).
- Switzerland has also made significant improvements when it comes to responding to applications for administrative assistance. Processes have been accelerated and personnel resources increased, which means that the great majority of enquiries can now be responded to much more efficiently.

Results of Global Forum peer reviews

Results of Global Forum peer reviews

OVERALL JURISDICTION RATINGS FOLLOWING FIRST REVIEW CYCLE	
Australia, Belgium, Canada, China (People's Republic of), Colombia, Denmark, Finland, France, Iceland, India, Ireland, Isle of Man, Japan, Korea, Lithuania, Mexico, New Zealand, Norway, Slovenia, South Africa, Spain, Sweden	Compliant
Albania, Argentina, Aruba, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belize, Bermuda, Botswana, Brazil, British Virgin Islands, Brunei Darussalam, Bulgaria, Burkina Faso, Cameroon, Cayman Islands, Chile, Cook Islands, Cyprus, Czech Republic, El Salvador, Estonia, Former Yugoslav Republic of Macedonia, Gabon, Georgia, Germany, Ghana, Gibraltar, Greece, Grenada, Guernsey, Hong Kong (China), Hungary, Israel, Italy, Jamaica, Jersey, Kenya, Latvia, Lesotho, Liechtenstein, Luxembourg, Macao (China), Malaysia, Malta, Mauritania, Mauritius, Monaco, Montserrat, Morocco, Netherlands, Nigeria, Niue, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russia, San Marino, Senegal, Singapore, Slovak Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Saudi Arabia, Switzerland , Turks and Caicos Islands, Uganda, United Kingdom, United States, Uruguay	Largely compliant
Andorra, Anguilla, Antigua and Barbuda, Costa Rica, Curaçao, Dominica, Dominican Republic, Indonesia, Samoa, Sint Maarten, Turkey, United Arab Emirates	Partially compliant
Marshall Islands, Panama	Non-compliant
Guatemala, Federated States of Micronesia, Trinidad and Tobago	
JURISDICTIONS NOT YET RATED BECAUSE THEY CANNOT MOVE TO PHASE 2	
Kazakhstan	

Fig. 21

Two elements that were given the determination partially compliant are associated with various recommendations. These relate to the aspects of bearer shares and dealing with stolen data.

In the area of bearer shares, Switzerland has already taken a number of different measures. However, the Global Forum took the view that the mechanisms to identify beneficial owners could be designed more effectively.

Where the issue of stolen data is concerned, the Federal Council adopted the dispatch on the amendment of the Tax Administrative Assistance Act (TAAA) and submitted it to Parliament in June 2016. In October 2016, the corresponding committee of the National Council suspended the bill. It called upon the Federal Council to prepare a dispatch that would incorporate all recommendations drawn up for Switzerland by the Global Forum in its evaluation of July 2016. With this dispatch, the committee should be able to reach a decision on all measures with full knowledge of the situation. The corresponding draft is anticipated in 2017.

A new evaluation cycle for all members of the Global Forum began at the end of 2016. On the one hand, this will involve reviewing whether the recommendations of the Global Forum have been implemented. On the other, the Global Forum will now be reviewing additional elements such as group requests, the identification of beneficial owners, and the quality of enquiries. Switzerland will receive an overall rating at a later point in time. Switzerland's review is currently expected to start at the end of 2018.

Review of AEOI implementation

In order to ensure effective implementation of the AEOI standard, the Global Forum was instructed to monitor countries by means of future AEOI country reviews. Just like the reviews of the exchange of information upon request, these reviews should likewise follow set rules. The first comprehensive country reviews are scheduled to begin in 2019.

In advance of the establishment of a complete evaluation process, the Global Forum is undertaking selected evaluations of individual elements that are considered of crucial importance to the implementation of the AEOI standard. In

2016, the Global Forum completed pre-evaluations of individual countries that have committed to applying AEOI, in which it focused specifically on confidentiality and data security. Switzerland successfully passed this review. Further reviews are now scheduled, in particular an evaluation of legal and regulatory parameters. In addition, a monitoring system has been set up by the Global Forum with a view to ensuring that the corresponding state and territories have an appropriate AEOI network. The reports to the G20 will be based on this monitoring; states and territories with an AEOI network deemed to be insufficient are to be put under pressure.

4.3.2 Inclusive Framework on BEPS

With the BEPS final report having been adopted in October 2015, the focus is now on implementation. In order to review how the results of the BEPS project are being implemented, in September 2015 the finance ministers and central bank governors of the G20 instructed the OECD to elaborate a BEPS implementation framework, which it designated the Inclusive Framework on BEPS (IF). The aim of the IF is to ensure a level playing field internationally in the tax competition between locations.

The IF was launched in Kyoto at the end of June 2016. In addition to the countries participating in the BEPS project, more than 40 other states and territories have declared their willingness to implement the BEPS results and participate in the IF. The IF is managed by a committee made up of representatives from a total of 20 countries, including one representative from Switzerland. Unlike the Global Forum, the IF is not a new body but an expansion of the OECD's existing Committee on Fiscal Affairs and its sub-groups (see Figure 22).

In view of the desire to create a level playing field globally, Switzerland believes it is important that as many countries as possible – particularly key competitor locations – implement the results of the project. In order to prevent non-participating states or territories gaining an advantage over members of the IF, the G20 called for objective criteria to be formulated to identify so-called "jurisdictions of relevance". This is designed to ensure that states and territories that do not join the IF can also be reviewed.

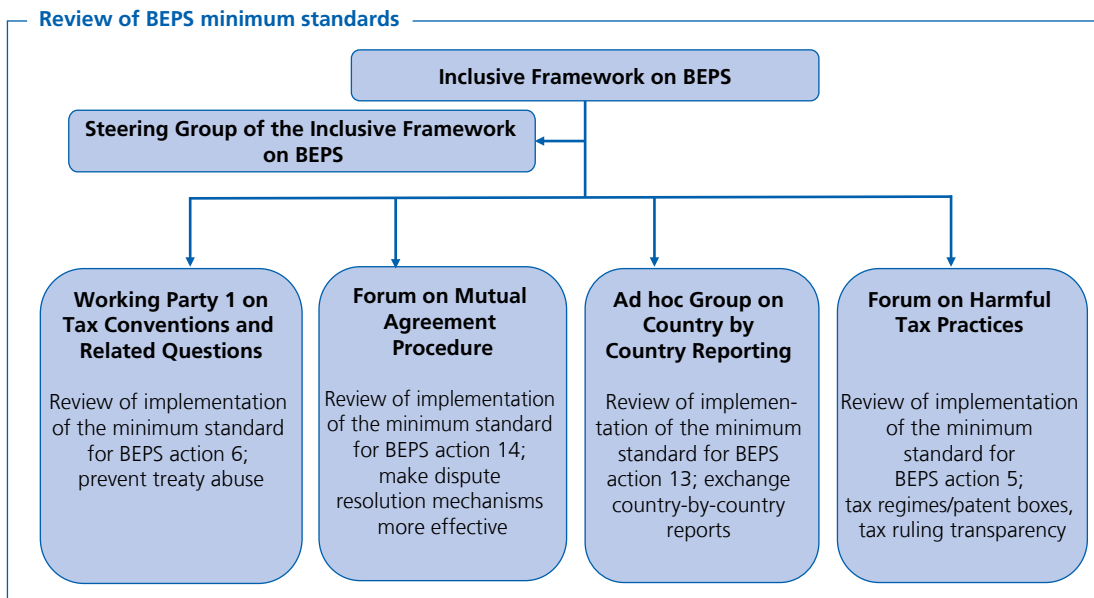


Fig. 22

The main task of the IF will be to review whether the minimum standards to emerge from the BEPS project are being implemented (see Figure 20):

- Abolishing harmful tax regimes (BEPS Action 5)
- Substantial activity requirements for patent boxes (BEPS Action 5)
- Transparency rules for tax rulings (BEPS Action 5)
- Preventing the abuse of agreements, particularly in the form of “treaty shopping” (BEPS Action 6)
- Exchange of country-by-country reports (BEPS Action 13)
- Dispute resolution mechanisms (BEPS Action 14)

The review criteria and procedure will be formulated by the expert working group of the IF largely responsible for work in this area, before then being submitted to the plenary body for approval. The corresponding tasks are already being tackled and in some cases have been completed. In October 2016, for example, the IF published the principal documents for the review process of the minimum standard as per BEPS Action 14. For Switzerland, the first phase of the review began in December 2016.

The Forum on Harmful Tax Practices (FHTP) is part of the IF. Since 2016 it has been reviewing whether the special rules for the taxation of revenue from intangible assets (so-called patent boxes) comply with the BEPS minimum standards. The FHTP is hoping to complete its work in 2017. In addition, it has created the prerequisites for reviewing the special rules of new members of the IF as well as the minimum standard on transparency in the case of tax rulings. These reviews are to take place in 2017. The discussions that have persisted ever since 2013 over a possible revision of the criteria for the evaluation of harmful tax practices have continued, but without any concrete results as of yet.

In addition, the IF was instructed to formulate so-called “toolkits” together with the IMF and the World Bank. These toolkits – encompassing documentation, risk evaluations, and comparative databases, among other things – are designed to support developing countries in the implementation of BEPS.

4.3.3 Multilateral Instrument

Among other things, the results of the BEPS project include recommendations calling for the amendment of existing double taxation agreements (DTAs). In order to create a rapid and cost-efficient process, a group of more than

100 states and territories has elaborated a so-called multilateral instrument (MLI) for the implementation of agreement-related BEPS measures. The MLI is designed to assist with the adjustment or supplementation of existing DTAs in keeping with agreement-related recommendations stemming from the BEPS project (Actions 2, 6, 7 and 14, cf. Figure 20).

Switzerland has played an active role in the elaboration of the MLI. It called for the MLI to incorporate the reservations and options necessary for Switzerland. The MLI has been ready for signing since the end of December 2016.

In Switzerland, the following next steps are planned:

- The Federal Council will decide whether Switzerland will sign the MLI. If Switzerland is to sign the MLI, the Federal Council will submit a provisional list setting out the countries and territories in respect of which the MLI should apply for Switzerland. It will also set out the DTA adjustments Switzerland is considering.
- Once the MLI has been signed, the Federal Council will hold a consultation process. As part of this process, the Federal Council will propose the states and territories with which the MLI is to apply and the provisions of Switzerland's DTAs that are to be amended.
- On the basis of the subsequent responses received, the Federal Council will then submit its dispatch to Parliament.

When approving the MLI, Parliament will also be able to decide on the Swiss reservations and options.

4.4 Bilateral agreements

4.4.1 Double taxation agreements

Double taxation agreements (DTAs) are designed to avoid the double taxation of natural persons and legal entities with international connections in the area of income and wealth tax. They are therefore a key element in promoting international economic exchanges. Switzerland currently has DTAs in place with more than 100 countries, and is keen to expand its network of agreements further.

In addition to provisions to avoid double taxation, DTAs also contain rules relating to the exchange of tax information upon request. The key yardstick in this respect is the international standard as formulated by the OECD in Article 26 of the OECD Model Agreement, the adoption of which was approved by Switzerland back in 2009. This standard is now enshrined in 54 Swiss DTAs, and the corresponding provision is in force in 50 DTAs. Switzerland is prepared to agree to a provision on the exchange of information upon request as per the international standard in all DTAs.

New DTAs entered into force with Liechtenstein and Oman in 2016. The agreement with Liechtenstein replaces the agreement on various tax issues dating back to 1995. Unlike the earlier agreement, the new DTA avoids any double taxation of the income and wealth of persons domiciled in Liechtenstein or Switzerland. The DTA with Oman expands Switzerland's network of agreements in the economically significant Gulf region.

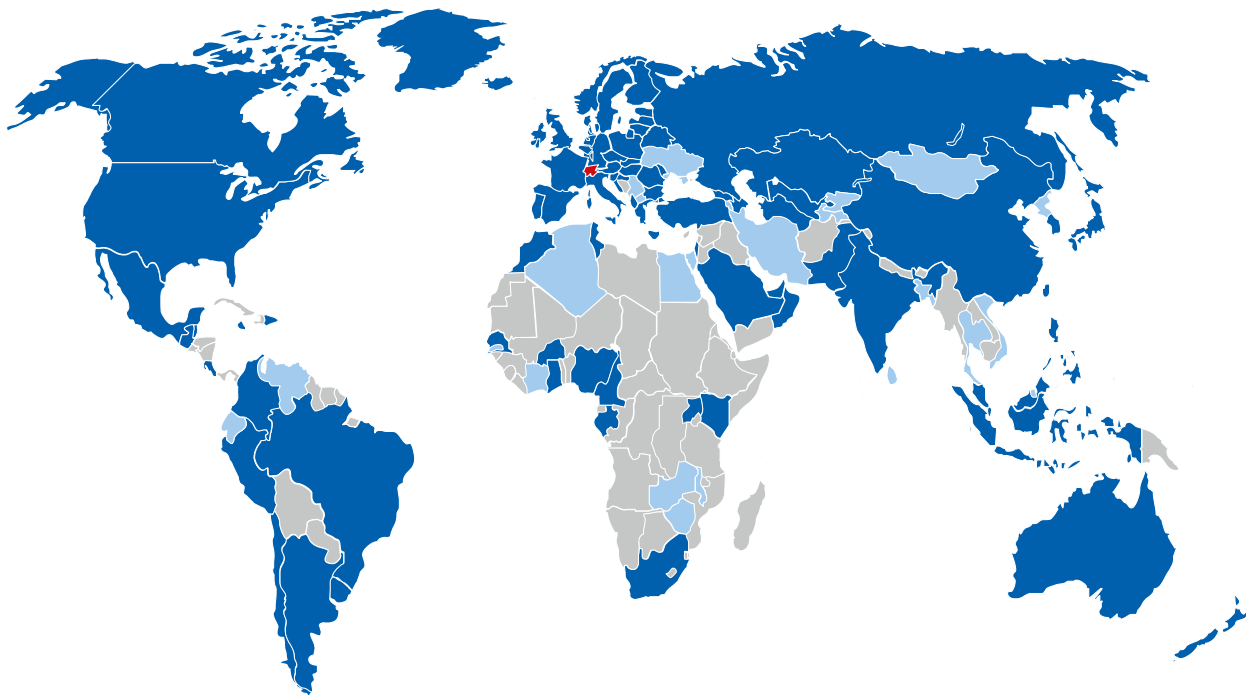
In addition, protocols for the amendment of the DTAs with both France, Italy, Norway and Albania entered into force in 2016. This makes all of Switzerland's DTAs with neighbouring countries standard-compliant with respect to the exchange of information upon request.

4.4.2 Tax information exchange agreements

Tax information exchange agreements (TIEAs) and double taxation agreements (DTAs, see section 4.4.1) are essentially similar instruments when it comes to agreeing a standard-compliant administrative assistance clause. Unlike a DTA, which primarily serves the purpose of avoiding double taxation and sets out the corresponding provisions, a TIEA is limited to the exchange of information upon request.

Two further Swiss TIEAs entered into force in the reporting year, namely those with Belize (October 2016) and Grenada (December 2016). Both have applied with effect from 1 January 2017. Switzerland now has nine TIEAs in force. The TIEA with Brazil was approved by the Federal Assembly in December 2016. This agreement is subject to a possible referendum.

Switzerland's international administrative assistance in tax matters



Administrative assistance in accordance with international standard

DTAs/TIEAs in force (59)

Albania ¹⁾	Czech Republic ¹⁾	Guernsey ²⁾	Kazakhstan ¹⁾	Poland ¹⁾	Spain ¹⁾
Andorra ²⁾	Denmark ¹⁾	Hong Kong ¹⁾	Korea ¹⁾	Portugal ¹⁾	Sweden ¹⁾
Argentina ¹⁾	Estonia ¹⁾	Hungary ¹⁾	Liechtenstein ¹⁾	Qatar ¹⁾	Taiwan ¹⁾
Australia ¹⁾	Faroe Islands ¹⁾	Iceland ¹⁾	Luxembourg ¹⁾	Romania ¹⁾	Turkey ¹⁾
Austria ¹⁾	Finland ¹⁾	India ¹⁾	Malta ¹⁾	Russia ¹⁾	Turkmenistan ¹⁾
Belize ²⁾	France ¹⁾	Ireland ¹⁾	Mexico ¹⁾	San Marino ²⁾	United Arab Emirates ¹⁾
Bulgaria ¹⁾	Germany ¹⁾	Isle of Man ²⁾	Netherlands ¹⁾	Seychelles ²⁾	United Kingdom ¹⁾
Canada ¹⁾	Greece ¹⁾	Italy ¹⁾	Norway ¹⁾	Singapore ¹⁾	Uruguay ¹⁾
China ¹⁾	Greenland ²⁾	Japan ¹⁾	Oman ¹⁾	Slovakia ¹⁾	Uzbekistan ¹⁾
Cyprus ¹⁾	Grenada ²⁾	Jersey ²⁾	Peru ¹⁾	Slovenia ¹⁾	

DTAs approved by Parliament (3)

Belgium	Ghana	United States
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Signed DTAs/TIEAs or multilateral administrative assistance convention (51)

Anguilla ³⁾	Cayman Islands ³⁾	Gabon ³⁾	Lithuania ³⁾	Nigeria ³⁾	South Africa ³⁾
Aruba ³⁾	Chile ³⁾	Georgia ³⁾	Malaysia ³⁾	Niue ³⁾	St. Kitts & Nevis ³⁾
Azerbaijan ³⁾	Colombia ³⁾	Gibraltar ³⁾	Mauritius ³⁾	Pakistan ³⁾	Tunisia ³⁾
Barbados ³⁾	Cook Islands ³⁾	Guatemala ³⁾	Moldavia ³⁾	Panama ³⁾	Turks & Caicos ³⁾
Bermuda ³⁾	Costa Rica ³⁾	Indonesia ³⁾	Monaco ³⁾	Philippines ³⁾	Uganda ³⁾
Brazil ^{2/3)}	Croatia ³⁾	Israel ³⁾	Montserrat ³⁾	Samoa ³⁾	Ukraine ³⁾
British Virgin Islands ³⁾	Curaçao ³⁾	Jamaica ³⁾	Morocco ³⁾	Saudi Arabia ³⁾	
Burkina Faso ³⁾	Dominica ³⁾	Kenya ³⁾	Nauru ³⁾	Senegal ³⁾	
Cameroon ³⁾	El Salvador ³⁾	Latvia ^{1/3)}	New Zealand ³⁾	Sint Maarten ³⁾	

Administrative assistance, but not in accordance with international standard

DTAs/TIEAs in force (26)

Algeria	Ecuador	Kuwait	Montenegro	Tajikistan	Zambia
Antigua	Egypt	Kyrgyzstan	Serbia	Thailand	
Armenia	Gambia	Macedonia	Sri Lanka	Trinidad and Tobago	
Bangladesh	Iran	Malawi	St. Lucia	Venezuela	
Belarus	Ivory Coast	Mongolia	St. Vincent	Vietnam	

No administrative assistance

¹⁾ Double taxation agreement (DTA) ²⁾ Tax information exchange agreement (TIEA)

³⁾ OECD/Council of Europe multilateral administrative assistance convention

Fig. 23

4.4.3 FATCA

The implementation of the unilateral US Foreign Account Tax Compliance Act (FATCA) in Switzerland will be effected in line with the so-called Model 2 (see Figure 24). The Swiss-US FATCA agreement envisages Swiss financial institutions reporting account data directly to the US tax authority (IRS) with the consent of the affected clients. In the absence of a declaration of consent, the USA must request client data via the channel of administrative assistance. However, requests of this kind can only be submitted once the protocol to amend the Swiss-US double taxation agreement, which is currently being blocked in Congress, has been approved by Congress.

In February 2016, Switzerland and the USA signed an agreement whereby an exemption provision for the accounts of attorneys and notaries was incorporated into the valid FATCA agreement.

The FATCA Qualification Committee headed by the SIF contributed to a standardised practice for the implementation of FATCA agreement in the reporting year, namely by addressing questions raised by the private sector.

Negotiations based on the Federal Council's mandate of October 2014 on a new FATCA agreement as per Model 1 are currently being held. Unlike Model 2, this envisages the automatic exchange of data between the relevant authorities (see Figure 24). The timing of the corresponding agreement is still unknown.

4.4.4 Withholding tax agreements

The system of withholding tax agreements (WTAs) was replaced by the automatic exchange of information (AEOI) with effect from 1 January 2017. The WTAs with the United Kingdom and Austria were rescinded last year. In November 2016, Switzerland concluded the corresponding termination agreements with Austria and the United Kingdom. These guarantee an uninterrupted transition to AEOI. The termination agreements regulate in particular the modalities that apply to the transfer of the final tax amounts and the submission of the final voluntary reports to the tax authorities of the corresponding partner countries. The provisions of the WTAs remain applicable to all circumstances and legal arrangements that are applicable during their period of validity. In the case of Austria, the memorandum on issues relating to market access remains in place.

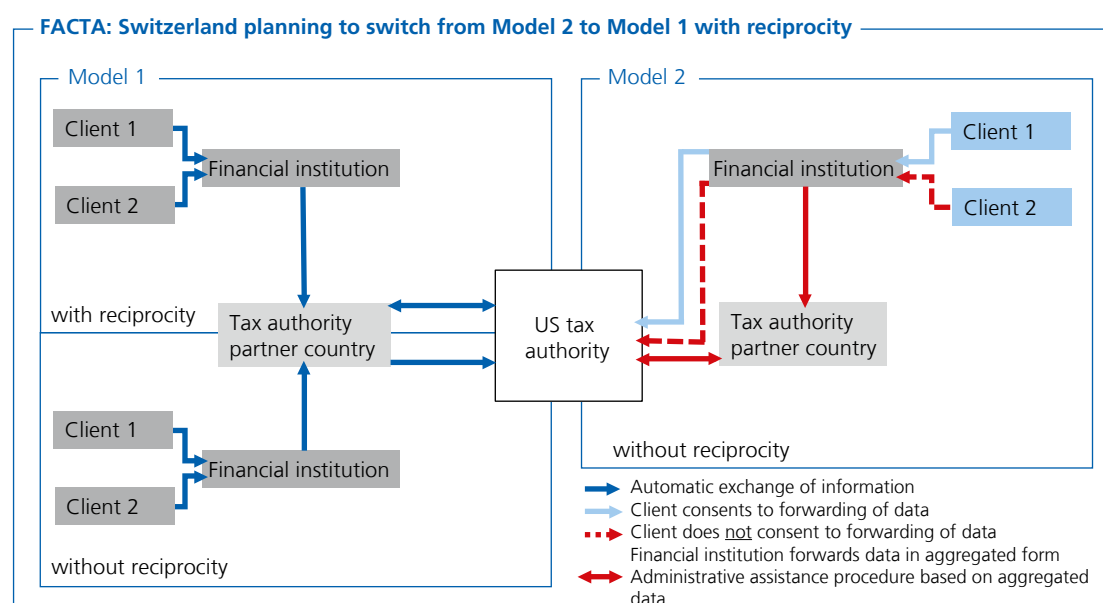


Fig. 24

4.5 Bilateral tax matters

4.5.1 Brazil

The opening of bilateral technical discussions between Switzerland and Brazil with a view to concluding a double taxation agreement was initiated with the signing of a tax information exchange agreement between the two countries in November 2015. The relevant authorities of the two countries are in regular contact in order to advance these discussions.

The Federal Department of Finance (FDF) opened the corresponding consultation in December 2016 on the introduction of the automatic exchange of information (AEOI). The aim is for AEOI with Brazil to enter into force on 1 January 2018 with a view to the first exchange of information taking place in 2019.

4.5.2 India

Switzerland's relationship with India once again had a very important role to play in 2016, particularly in the context of the phase 2 evaluation of Switzerland. The finance ministries and tax administrations of the two countries maintained a regular dialogue throughout the year. In June 2016, a high-ranking meeting took place in New Delhi at which a range of bilateral issues was discussed. It was also agreed at this meeting that the two countries would conduct discussions over AEOI. These discussions were concluded with the resulting joint statement, which was signed in November 2016.

4.5.3 United States

Based on the joint statement signed in August 2013 and the unilateral US programme of the

Department of Justice (DOJ) that entered into force simultaneously, Swiss banks that had to assume they may have violated US law (category 2) had to register with the DOJ and fulfil the requirements of the US programme. This opportunity to resolve legacy issues was taken by 80 Swiss financial institutions. In January 2016, the last Non-Prosecution Agreement was concluded with the DOJ.

In addition, the US programme offered the possibility for Swiss banks that had not violated US tax law to apply for a so-called Non-Target Letter from the DOJ (category 3). The DOJ issued the last out of a total of five Non-Target Letters to Swiss banks in December 2016, in which it confirmed that the DOJ would not open any criminal investigations in connection with tax offences on the basis of the information currently available to it. Bank Julius Baer (category 1) reached a settlement with the DOJ in February 2016. Other category 1 banks are still in negotiations.

4.5.4 France

Switzerland and France signed an agreement in the area of administrative assistance in tax matters in June 2014. This also amended the additional protocol on the Swiss-French agreement on the avoidance of double taxation. This agreement entered into force in March 2016. The bilateral relations now meet the international standard of the OECD with respect to the exchange of information upon request. Generally speaking, the provisions of the agreement are applicable from 1 January 2010 onwards; for group enquiries based on patterns of behaviour, however, the agreement is only applicable to

US programme – classification of banks			
Category 1	Category 2	Category 3	Category 4
US criminal investigation in progress	US tax law possibly violated	US tax law not violated	Banks whose business is local
Comprehensive data on US business	Comprehensive data on US business	Data on US assets under management	No information
Individual penalties	Individual penalties on a flat-rate basis	No penalties	No penalties

Fig. 25

cases arising from 1 February 2013 onwards. The dialogue between France and Switzerland initiated in November 2013 with a view to finding mutually acceptable solutions on all pressing tax and financial matters of mutual interest (administrative assistance, implementation of the BEPS work of the OECD to avoid base erosion and profit shifting, access to financial services markets, etc.) continued in 2016. This dialogue is helping to stabilise bilateral relations in the tax and finance area.

In November 2016, Switzerland and France initialled an agreement on the tax law that applies in the area of Basel-Mulhouse airport. This agreement, which clarifies a number of previously open tax questions, will be publicised when it is definitively signed.

4.5.5 Italy

In December 2015, Switzerland and Italy initialled a new agreement on the taxation of cross-border commuters. This agreement will replace the previous version dating back to 1974, but must first be signed by both governments and then approved by the parliaments of both countries.

In July 2016, a protocol between the two countries to amend the agreement on the avoidance of double taxation entered into force. This protocol contains a provision on the exchange of information upon request in accordance with Article 26 of the OECD model agreement. The new provision applies to enquiries submitted from 13 July 2016 onwards, and specifically to information on matters and/or circumstances already existing on 23 February 2015 or arising after this date.

Review and outlook

The Swiss financial sector remains confronted by a **difficult macroeconomic environment**. Low or even negative interest rates are the expression of weak growth as well as low inflation in both Switzerland and other industrialised nations. The environment also remains challenging at an international level. Economic recovery continues to prove modest, while the risks – including those of a geopolitical nature – remain in place.

Despite this difficult environment, **opportunities** are arising for Switzerland. It has pressed ahead with key reforms. This has also been recognised at an international level, as testified to by the **good results achieved in the country reviews** carried out by the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Financial Action Task Force (FATF).

This **progress in the implementation of international standards** puts Switzerland in a position to further develop its financial market policy autonomously. In October 2016, the Federal Council adopted a report in which it sets out the basis for a forward-looking financial market policy. At the same time, Switzerland continues to align its policy with globally recognised standards.

Switzerland attaches great importance to the establishment of **equal competitive conditions for all players** globally. With this in mind, Switzerland will continue to advocate global, consistent, and successful implementation of the AEOL standard in 2017, whereby this should involve reciprocity and take into account the speciality principle.

Furthermore, Switzerland will also lobby in 2017 for further implementation of international efforts to deliver **greater transparency** and a **level playing field in the taxation of multinational enterprises**. As an OECD member, it has actively participated in the fight against base erosion and profit shifting (BEPS). In particular, Switzerland intends to implement the BEPS minimum standards through its third series of corporate tax reforms.

Another key theme in 2017 is implementation of the aspirations of the Federal Council in the fintech area. A dynamic **fintech** system can make a key contribution to the quality of the Swiss financial centre and strengthen its competitiveness. The Federal Department of Finance (FDF) was instructed to elaborate the corresponding consultation draft in this respect. The new guidelines should enter into force in 2017 and strengthen Switzerland as a leading fintech centre.

Further **market access discussions** will be held in 2017. Switzerland's neighbouring countries have traditionally been of great importance: Germany, France and Italy all rank among the largest target markets of Swiss financial market protagonists. In addition, the countries of Latin America as well as the Middle and Far East are likely to play a more important role in future.

Switzerland will therefore continue to work to ensure that its interests are preserved in the major **international bodies** such as the International Monetary Fund (IMF), the OECD, the G20 and the Financial Stability Board. A key prerequisite in this respect is for Switzerland to participate in the summits of G20 finance ministers and central bank governors once again in 2017. Germany, which has held the G20 presidency since 1 December 2016, has invited Switzerland to these gatherings.

