Report on international financial and tax matters 2015
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Six years after the onset of the financial crisis, its effects are still felt. On the one hand, the global economy is recovering slowly from the crisis, hindered in particular in Europe by high debt levels and still pending structural reforms. On the other, the international community has undertaken significant efforts to make the financial system more resilient. Now, the time has come to implement the new international standards around the world. This is also in the interests of Switzerland.

While these developments naturally involve risks, they also present opportunities. Switzerland must actively come to terms with these new realities in a forward-looking manner, and represent and defend its interests in this changed and dynamic international environment as best it can. The Federal Council has a clear objective: we want Switzerland to be a stable, competitive and internationally accepted financial centre and business location that continues to contribute significantly to prosperity in our country.

This does not happen without painful adjustments, as illustrated by the heated public debates in Switzerland over financial market policy, new regulations, corporate tax rules and the abolition of tax-related banking secrecy vis-à-vis foreign countries. Nevertheless, Switzerland’s development as a financial centre and business location since the financial crisis also shows that it is on the right track. Compared internationally, the economic indicators are overwhelmingly positive. The state, too, has retained its ability to act and even deviated from the international trend by reducing public debt rather than increasing it.

We must continue along this path because there are still risks. What is required, therefore, is adequate financial regulation for increased stability and greater consumer and investor protection as well as adjustments to the taxation of companies and, with regard to the transparency of bank client data, consistent rules to combat financial crime. We are actively committed to international standards that should apply for all countries. And we implement these standards in an effort to contribute to financial stability and morally sound global financial markets. Furthermore, we thus create legal certainty for investors, entrepreneurs and consumers, and limit reputational risks. In this way, we can exploit our key strengths such as neutrality, political security and legal certainty, high-quality services, and our own currency even better.

At the same time, we must continue to implement the new financial market policy that was introduced by the Federal Council in 2009, and develop it further. In December 2014, the group of experts comprised of representatives of authorities, the private sector and academia, and led by Professor Aymo Brunetti made recommendations for the further development of the financial market policy in their final report. The Federal Council will closely examine these recommendations and incorporate them into its future work.

This Federal Council report, published for the fifth time this year, shows how Switzerland is tackling the challenges it faces in international financial and taxation matters and the challenges that are to be overcome in 2015 and the years ahead.

Eveline Widmer-Schlumpf
Head of the Federal Department of Finance
Overview

The effects of the global debt and financial crisis were still felt in 2014. While the global economy has stabilised and at least partially recovered from the crisis, the persistently high debt burden continues to give cause for concern and numerous risks are still present in the financial system.

Most of the reforms of the international financial system that were initiated after the financial crisis are now under way, and further progress was made on their implementation in 2014. In addition, new standards were created in various important areas at the international level in 2014. Switzerland is particularly affected by these, given its status as a very diversified international financial centre.

– The Financial Stability Board (FSB) presented proposals for a new additional capital standard for systemically important banks in November. They are now under consultation internationally and should be finalised by the end of 2015. The new requirements should ensure that sufficient loss-absorbing capital is available in the event of a crisis to stabilise or wind up a bank without recourse to public funds. They supplement the existing Basel III regime and the capital surcharges already approved by the FSB for global systemically important banks. Within the FSB, Switzerland was one of the advocates of stricter standards and welcomes the new recommendations. They are generally compatible with Switzerland’s existing too big to fail concept and will contribute to the ongoing review of Swiss measures for systemic stability. The proposals made by the Brunetti group of experts in December 2014 take these international developments into account and recommend that Switzerland aim for the upper limit of the capital requirements discussed at international level (section 3.3.1).

– Two important regulatory projects have taken shape in the EU. The revised financial market directive (MiFID II) regulates the sale of financial services and is designed to improve client protection in particular. The EU conditions for providers of financial services from third countries are particularly important for Switzerland; these remain primarily within the remit of the member states for the present. The second project, called EMIR (European Market Infrastructure Regulation), is an EU regulation established in 2012 that regulates OTC derivatives trading, among other things. In the future, these types of transactions should be carried out more transparently over central counterparty platforms. Here too, Switzerland, as a third country, attaches great importance to market access and the regulation of infrastructure providers from third countries which is recognised as being equivalent. In 2014, the Federal Council proposed corresponding legislation for Swiss law. The consultations on the Financial Services Act (FinSA), the Financial Institutions Act (FinIA) and the Financial Market Infrastructure Act (FMIA) were carried out in 2014. The FMIA dispatch was referred to Parliament in September 2014. The Federal Council will submit the dispatches for the FinSA and FinIA to Parliament in 2015 (section 3.3.2).

– The global standard for the automatic exchange of information for tax purposes has been adopted in the OECD. The model agreement and the common reporting standard were published in February 2014 and establish what bank client data should be exchanged automatically between the tax authorities of two countries and how this should be done. The full version of the standard was completed in July 2014, including the commentaries on the model agreement and information technology solutions for exchanges. Switzerland was actively involved in developing the standard and successfully campaigned for the incorporation of five basic principles:

– A single global standard
– Reciprocity (mutual exchange of information)
– Data protection
– Principle of speciality (data solely for agreed purposes)
– Transparency vis-à-vis trusts and financial constructs too

All major financial centres committed themselves to the new standard during the plenary meeting of the Global Forum in Berlin at the end of October 2014. Switzerland stated that it would aim to establish the legal framework by the end of 2016 so that the automatic
exchange of information (AEOI) would be possible from 2018. The Federal Council will conduct a consultation on the legal framework in 2015. This includes an implementing act in Switzerland that will make the cross-border automatic exchange of information possible in the first place, as well as the multilateral AEOI agreement, which was signed by the Federal Council at the end of 2014, and the OECD/Council of Europe Convention on Mutual Administrative Assistance, which the Federal Council signed in 2013. The list of partner countries with which Switzerland will practise the AEOI will be presented to Parliament separately, depending on the outcome of the corresponding negotiations. According to the Federal Council’s mandate, improved market access and settlement of the past are to be sought in parallel to the AEOI negotiations (section 4.2.1).

– Also in the OECD, work on the large-scale base erosion and profit shifting (BEPS) project has progressed. The initial results were published in September 2014. The work is due to be completed by the end of 2015. The aim is to draw up new rules at the international level for the taxation of companies operating internationally and to prevent double non-taxation in particular. A level playing field should be ensured for everyone. Switzerland is heavily involved in the OECD’s work on the BEPS project. On 22 September 2014, the Federal Council launched the consultation on the third series of corporate tax reforms. These take into account the international work of the OECD and are designed to strengthen the competitiveness of Switzerland as a business location. Furthermore, Switzerland put an end to its longstanding dispute with the EU on business taxation on 14 October 2014 with the signing of a mutual understanding (section 4.3.1).

– With regard to combating money laundering, the new recommendations of the Financial Action Task Force (FATF) have been available since 2012. The legal implementation of these is well under way in Switzerland. Parliament addressed the matter several times in 2014 and assessed how much room for manoeuvre Switzerland has with the implementation of the FATF standard (section 2.5.1).

**Review of 2014**

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<td>18.03.</td>
<td>IMF acknowledges Switzerland’s good growth prospects and stable financial sector</td>
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<td>10.04.</td>
<td>IMF and World Bank 2014 Spring Meetings in Washington</td>
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<td>02.06.</td>
<td>FATCA agreement between Switzerland and the USA comes into force</td>
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<td>20.06.</td>
<td>Federal Council declassifies South Africa archives</td>
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<td>25.06.</td>
<td>Federal Council publishes report on virtual currencies such as bitcoin</td>
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<td>25.06.</td>
<td>French Finance Minister Sapin in Bern: continuation of financial dialogue with France</td>
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<td>27.06.</td>
<td>Federal Council launches consultation on FinSA/FinIA</td>
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<td>27.06.</td>
<td>Financial dialogue with China in Bern, followed by financial round-table talks organised by Switzerland’s financial industry</td>
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<td>30.06.</td>
<td>FATCA Act comes into force</td>
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<td>11.07.</td>
<td>Green light for the launch of Switzerland’s supplementary report</td>
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<td>21.07.</td>
<td>OECD publishes global standard for the automatic exchange of information</td>
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<td>01.08.</td>
<td>Revised Tax Administrative Assistance Act comes into force</td>
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<td>03.09.</td>
<td>Federal Council adopts dispatch on FMIA</td>
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<td>16.09.</td>
<td>OECD publishes initial outcomes of BEPS project (corporate taxation)</td>
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<td>22.09.</td>
<td>Federal Council launches consultation on third series of corporate tax reforms</td>
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<td>08.10.</td>
<td>Automatic exchange of information in tax matters: Federal Council adopts negotiation mandates with partner states and switch to a Model 1 FATCA agreement with the USA</td>
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<td>09.10.</td>
<td>IMF and World Bank 2014 Annual Meetings in Washington</td>
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<td>14.10.</td>
<td>Signing of the mutual understanding on business taxation between the EU and Switzerland on the fringes of the meeting of EU-EFTA finance ministers in Luxembourg</td>
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<td>14.10.</td>
<td>First three tax information exchange agreements come into force</td>
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<td>15.10.</td>
<td>Switzerland and India sign declaration on administrative assistance</td>
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<td>29.10.</td>
<td>Plenary meeting of the Global Forum on tax transparency in Berlin</td>
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<td>30.10</td>
<td>Publication of report on the significance of shadow banking in Switzerland</td>
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<td>10.11</td>
<td>Publication of FSB’s TLAC proposal</td>
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<td>19.11</td>
<td>Federal Council approves Switzerland’s participation in multilateral agreement on the automatic exchange of information</td>
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<td>05.12</td>
<td>Federal Council takes note of Brunetti group of experts’ final report on further development of financial market strategy</td>
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<td>12.12</td>
<td>Parliament adopts act on revised FATF recommendations</td>
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Aside from its work in multilateral bodies such as the International Monetary Fund, the Financial Stability Board, the OECD or the FATF, Switzerland also maintains intensive bilateral contacts with the EU, neighbouring countries and the United States, as well as regular financial dialogue with other G20 countries such as Australia, Brazil, China, India, Japan, Russia, Turkey and the United Kingdom.
1 International environment

Outlook: The international environment is set to remain challenging for the Swiss economy. The International Monetary Fund (IMF) is anticipating economic growth of 3.8% in 2015. Advanced economies should experience 2.3% and emerging markets 5% growth. According to the IMF outlook, Switzerland will see slightly stronger economic growth of 1.6%.

In 2014, global economic growth was relatively modest and reached a similar level to that achieved in 2013 (+3.3%). It was also uneven: in advanced economies (+1.8%), growth was relatively high in the United States (+2.2%) and the United Kingdom (+3.2%), while 2014 proved to be a relatively difficult year for the euro zone (+0.8%), where growth ground to a halt in the second quarter. Growth was also quite weak in Japan (+0.9%) and its public debt burden is still very high. Emerging economies remain one of the drivers of global growth (+4.4%), even though their performance was weaker than in 2013 (+4.7%).

Despite the fact that the global economy has partially recovered from the recent economic and financial crisis, there are still many risks. This is especially true given that geopolitical developments, such as the Ukraine crisis or the troubles in the Middle East, and the modest economic growth in the eurozone countries are hampering global economic growth.

Furthermore, even though much progress has been made on stabilising the financial sector, it continues to be subject to risks. Overall, the relatively confident financial markets stand in stark contrast to the still fragile economic fundamentals. Above all, monetary policy has remained very expansive internationally and has built up confidence in the financial markets. Nevertheless, low interest rates have also spurred the search for yield, which has resulted in some market participants taking greater risks. At the same time, very low interest rates have not necessarily led to a significant increase in lending to the real economy. Moreover, the United States' announcement of its plan to normalise monetary policy, something which other major central banks have not yet followed, also presents a challenge for the global economy.

The economic and fiscal policy challenges therefore remain unchanged. Firstly, the stability of the financial system must continue to be strengthened, while at the same time cross-border access to markets must be guaranteed. Secondly, structural economic reforms must be implemented to guarantee sustainable economic growth. In addition, government finances in many countries still need to be consolidated in the medium term (see Figure 1).

In 2014, the Swiss economy’s growth, estimated to be 1.8% by the federal government’s group of experts, was at the average rate for advanced economies. The international environment continues to be the main source of risk. The financial centre is also challenged by the adjustment of banks’ business models and sustained consolidation pressures coming from the international regulatory, tax and economic environment. Improving the business environment further will enable these challenges to be met and a solid, dynamic economic structure to be maintained.

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**Figure 1**

![Public debt in % of GDP](chart.png)

Source: IMF

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Six years after the financial crisis: Defending Swiss interests

The 2008 international financial crisis made clear that increased global financial stability would require international efforts. Rapidly growing debt levels triggered by the crisis also intensified the fight against tax evasion, not just at a national level, but internationally. Lastly, many new regulations were created to increase transparency in the financial and tax system and to enhance the protection of consumers and investors.

At the same time, geopolitical shifts continue to affect the international financial architecture. Emerging economies are requesting greater influence in the International Monetary Fund (IMF) as well as in the Financial Stability Board (FSB) and the Global Forum, which is in charge of monitoring the OECD standards for administrative assistance and transparency in tax matters. These shifts tend to reduce the influence of the traditionally open small and medium-sized advanced economies.

This is most evident in the increasing importance of the G20, the group of the world’s largest economies. While it is not an organisation based on international law and does not have its own permanent secretariat, but is led by an annually rotating presidency, the G20 has become an agenda-setting international body in economic, financial and tax matters since the financial crisis.

What do these developments mean for Switzerland, as a country represented in most international financial bodies, but which is not a G20 member? How can Switzerland’s interests be best represented in this dynamic international context?

Answers to these questions should be nuanced. On the one hand, the influence of Switzerland and many other small and medium-sized advanced economies has diminished at the international level. This is not just because emerging economies have gained in importance, but also because the secretariats of multilateral organisations function as influential agents within the G20. On the other hand, it is precisely the central role of the G20 which creates a signal effect that goes far beyond the member states. The communiqués of G20 meetings are perceived very broadly as international consensuses and binding guidelines. Thus, the need for truly global standards and a level playing field in the competition between economic and financial centres worldwide is even stronger now than before the financial crisis. This is in Switzerland’s interest and to its advantage, as its economy is very integrated internationally.

Some examples:

– In 2003, when the savings tax agreement was being negotiated with the EU, important Asian financial centres remained on the sidelines despite the EU actively seeking to integrate them. Now, these financial centres, and practically all others, will also introduce the new global OECD standard for the automatic exchange of information in tax matters.

– The reform package of the Basel Committee on Banking Supervision (Basel III), which in particular provides for higher capital requirements, received broader political backing through the G20 resolutions in Korea in 2010.

– Supported by G20 mandates and working jointly with standard-setting bodies, the Financial Stability Board, the status of which was raised after the financial crisis (previously known as the Financial Stability Forum), has drawn up additional rules for globally systemic banks and insurance companies.

– The OECD is currently drawing up new rules under the BEPS (base erosion and profit shifting) project for the taxation of companies operating internationally. The G20 explicitly called for this work and discusses it regularly at its summits.
For an effective defence of its interests, Switzerland must adapt to a new reality of global standards coordinated within the G20. Representation of its interests is best achieved through active collaboration on further developing and reviewing these standards. Concretely, this is achieved through Switzerland’s participation in the OECD’s work on corporate taxation, in the FSB’s work on capital requirements for systemically important financial institutions and in the monitoring of financial sectors and budgetary frameworks within the IMF. Switzerland has already been able to successfully contribute principles such as data protection and the transparency of trusts to the standard for the automatic exchange of information. And thanks to Switzerland, the international recommendations on combating money laundering and the financing of terrorism reasonably contain the administrative burden for the private sector.

The more Switzerland is guided by these global standards and implements them, the more credible its commitment is and the more effective its inputs are.
2 International financial and monetary cooperation

Outlook: Consistent national implementation of the initiated reforms of the international financial system will present a major challenge also in 2015. The International Monetary Fund (IMF) will continue to introduce its enhanced toolkit for bi- and multilateral surveillance of economic and fiscal policy in 2015. At the same time, an analysis of the adequacy of the IMF's resources should be undertaken. The implementation of the 2010 IMF quota and governance reforms will remain challenging. While the focus in the Financial Stability Board (FSB) in 2015 will be on finalising pending regulatory standards, such as those for systemically important banks, it will also continue to concentrate on implementing the reforms to increase financial stability and further guarantee open financial markets. This requires a high degree of international cooperation and mutual trust on the part of financial market authorities.

2.1 Overview
Since the financial crisis hit in 2008, a series of reforms of the international financial system have been launched to both strengthen the regulatory framework of financial markets and enable improved supervision. The aim is to make the international financial system more resilient in future crises. As most of the international standards have been drawn up, it is now time to anchor them in national legislation all over the world.

The International Monetary Fund (IMF) performed a number of analyses in 2014 to determine the effectiveness of these initiatives. To provide its members with financial assistance when needed, the IMF reassessed its precautionary lending toolkit. The IMF Executive Board completed its triennial surveillance review and noted that significant progress had been made since 2011. The review of the Financial Sector Assessment Program showed that the reform of this programme, which was approved in 2009, has improved importantly the effectiveness and clarity of this toolkit. The IMF will now make recommendations on how members can strengthen their financial and economic stability. The members, in turn, will need to develop policies that are in line with these recommendations.

The reform of financial sector regulation has advanced well under the leadership of the Financial Stability Board (FSB). In 2014, progress was made on the framework for the recovery and resolution of systemically important banks as well as on defining the additional capital requirements for these institutions. Other focal points of the FSB's work in 2014 include the development of capital requirements for systemically important insurers, the reform of OTC derivatives markets and the preparation of standards for the shadow banking sector. Finally, the FSB also focused on monitoring its members' consistent implementation of the reforms, which is an increasingly important aspect of the reform process.

2.2 International Monetary Fund

2.2.1 IMF reforms
IMF quotas have a number of key roles: they form the basis for setting IMF member contributions and they determine the extent to which countries can call on financial support from the IMF as well as their voting rights on the IMF Executive Board. The quotas are derived from a formula based on a country's GDP, its economic and financial openness, variability in its trade and capital flows, and its currency reserves.

In December 2010, the IMF members adopted a resolution on the IMF quota and governance reforms, which in particular provides for enhanced representation of emerging economies. The reforms have not yet been ratified because approval by the US Congress is still pending. Switzerland's Parliament approved a corresponding proposal in June 2012.

Part of the reforms concerns the medium-term reallocation of two Executive Board seats held by advanced European countries to emerging market and developing countries. Switzerland has signed a memorandum of understanding (MoU) with Poland which gives Poland greater leadership involvement in the joint constituency. Under the MoU, Switzerland will represent the constituency in the ministerial bodies (International Monetary and Financial Committee of the IMF and Development Committee of the IMF).
and the World Bank), in which the political and strategic course of the institution is set. In return, Switzerland will share its seat on the Executive Board, the IMF’s operating decision-making body, with Poland and each of the two countries will occupy the seat for a two-year period on a rotation basis. Poland’s first two-year term begins in 2016. In this way, Switzerland is contributing to the reduction of two seats for advanced European countries, as are Belgium, the Netherlands and the Nordic countries. Exactly what the larger European countries will contribute in this respect remains an open question.

Another component of the 2010 reform package is a further revision of the quota formula, which should take place in parallel to the regular review quotas scheduled for 2015. Switzerland is committed to ensuring that a country’s economic and financial interconnectedness is better reflected in the quota formula. It is also calling for member countries’ voluntary financial contributions to be taken into account.

2.2.2 Evaluations in Switzerland in 2014

The regular evaluation of the economic and financial situation and policies of its member states is a core element of the IMF’s surveillance activities. On 30 April 2014, the IMF Executive Board approved two evaluations: the results of Switzerland’s financial sector assessment and the annual country review.

The IMF’s Financial Sector Assessment Program (FSAP) is mandatory for countries with globally important financial centres and takes place roughly every five years. Switzerland’s assessment pointed to the increased stability of the domestic financial sector since the global financial crisis. Significant progress has been made in the regulation and supervision of the financial sector. Nevertheless, the IMF recommends further strengthening financial market supervision, including staffing, and stepping up cooperation with foreign supervisory authorities. The IMF welcomed the increase in the countercyclical capital buffer approved by the Federal Council. Further measures would still need to be considered, however, due to continuing risks on the mortgage market and in the real estate sector. The IMF also suggested bringing depositor insurance more into line with international standards.

In the annual country review, the IMF attested that Switzerland generally had good growth prospects. The IMF found that the acceptance of the popular initiative against large-scale immi-
migration had increased uncertainty with regard to the medium-term growth prospects. The referendum also highlighted the challenges concerning Switzerland’s ageing population. In this area, the IMF welcomes the ongoing retirement provision reform, particularly the planned harmonisation of the retirement age for men and women.

2.2.3 Funding, lending and Switzerland’s contributions

The IMF’s general resources are provided by members via the quota system. The IMF can call on members to supply these resources as required. They earn interest at the prevailing market rate and are typically provided by countries’ central banks.

The depletion of resources due to commitments resulting from the global financial crisis made it necessary to increase the general resources for lending (see Figure 3). This increase in resources and Switzerland’s participation in the corresponding measures involves on the one hand the doubling of quotas, which will come into effect once the quota and governance reforms have been ratified (see also section 2.2.1). On the other hand, it also involves the expansion of the IMF’s backstop for quota resources which entered into force in 2011 (New Arrangements to Borrow, NAB). Overall, the doubling of quotas brings with it a roughly 50% decrease in the NAB resources. It should be noted that IMF resources also include bilateral funding made available to it by some of its members. As a result, at the end of 2014 the IMF had an additional funding safety net of approximately USD 441 billion that has yet to be called upon. Switzerland contributes up to a maximum of around CHF 20 billion to the IMF’s general resources, a quarter of which is comprised of quotas and the rest is made up of NAB. Of this maximum amount, CHF 2.2 billion is currently being used by the IMF; this corresponds to about 2% of the IMF’s general resources currently outstanding.

Loan commitments under current and completed programmes also fell in 2014, thus confirming the trend observed in 2013. Having peaked in 2012 at SDR 216 billion, which corresponded to approximately USD 333 billion, they amounted to SDR 173 billion (approximately USD 251 billion) at the end of 2014. The development of the IMF’s loan commitments and the utilisation of these loans over the last 20 years or so are shown in Figure 4. In 2014, 18 countries undertook adjustment programmes with the IMF. In terms of the loans committed, the most extensive loan programmes were those involving Greece and the Ukraine. The IMF resources outstanding to Ireland and Portugal under programmes drawn up together with the Fund’s European partners (EU and ECB) and since then completed remain significant. At the end of 2014, the IMF’s precautionary lending toolkit, in the form of flexible credit lines (FCL) or precautionary liquidity lines (PLL), accounted for almost 44% of the resources committed (see Figure 5).

Aside from its general resources, the IMF’s Poverty Reduction and Growth Trust (PRGT) allows the IMF to provide low-income members with loans at favourable conditions. The PRGT has resources amounting to some USD 40 billion, to which Switzerland currently contributes up to about CHF 950 million. Based on the Monetary Assistance Act (MAA) of March 2004, Switzerland can participate in special IMF facilities, such as those for financing low-interest loans for the benefit of low-income countries. The Swiss National Bank ensures Switzerland’s participation in the PRGT capital by way of credits. The government guarantees the SNB
the timely repayment of these credits, including interest. At the end of 2014, the PRGT’s committed and outstanding resources amounted to some USD 3.3 billion, of which CHF 218.3 million had been contributed by Switzerland.

The interest subsidy on PRGT loans is financed through bilateral contributions and the IMF’s own resources. In 2012, the IMF Executive Board decided to use USD 3.8 billion from the proceeds of gold sales for this purpose. On the basis of the Monetary Assistance Act, the Federal Assembly resolved to allocate funds amounting to CHF 50 million to PRGT interest subsidies. This is equivalent to the Swiss share in the proceeds of the IMF’s gold sales. The funds are to be disbursed in five tranches of CHF 10 million each in the years from 2014 to 2018. The first tranche was disbursed in January 2014.

Switzerland also has resources of up to CHF 10 billion (Monetary Assistance Decree of 2013) for monetary assistance in the case of serious disruptions to the international currency system (Art. 2 of the MAA) or for specific countries (Art. 4 of the MAA). No monetary assistance was granted in 2014 on the basis of these legal provisions.

In selected areas of technical support, Switzerland maintains a close partnership with the IMF both bilaterally and together with other countries. This includes providing assistance to strengthen the financial sectors of emerging market and developing countries, strengthen tax administrations, manage natural resources and combat money laundering and terrorist financing.

In these areas, Switzerland also makes its own expertise available. This typically occurs in response to requests from countries with which Switzerland collaborates closely, such as members of its constituency. For instance, the Head of the Federal Department of Finance signed a further memorandum of understanding (MoU) in Kazakhstan on collaboration between the two finance ministries during her visit to Central Asia in July 2014. A similar memorandum of understanding had already been signed with Kyrgyzstan in 2013. The formalisation of bilateral technical support enables Switzerland to collaborate with the member states of its constituency in a targeted manner. Switzerland thus contributes to the transition of these countries and their financial stability.

2.3 G20

The G20 continues to play a key role in improving the coherence of macroeconomic policies as well as guiding and stimulating the work of international organisations, particularly on financial regulatory reform. The rotating presidency brings specific dynamics to the G20’s agenda each year.

For the first time, at Australia’s initiative, the G20 set itself a specific goal in 2014 to lift GDP by an additional 2% in five years, which equates to USD 2 trillion. The Australian presidency chose to focus the G20’s priorities on the private sector and investment promotion. As part of these efforts, the G20 created a Global Infrastructure Initiative, a cooperation platform for improving the world’s investment climate. In relation to tax matters, the G20 advocated the development of the automatic exchange of
information and the fight against base erosion and profit shifting (BEPS). Furthermore, as part of its work on financial regulation, the G20 adopted a proposal for a new capital standard for banks, i.e. total loss-absorbing capacity (TLAC).

This year, Switzerland was not invited to participate in the G20, unlike in 2013, when it took part in the G20 Finance Track for the first time. Nevertheless, Switzerland actively pursued a dialogue with the Australian presidency and other G20 members, focusing on the G20 agenda and Switzerland’s possible contributions. Australia also invited Switzerland to several technical workshops and seminars. Moreover, on the topic of financial inclusion, in 2014 Switzerland joined the G20 Global Partnership for Financial Inclusion (GPFI), which is open to all interested non-G20 countries and is closely connected to the work of the G20 Development Working Group. SIF represents Switzerland in this group and coordinates the related work. Switzerland also continues to actively promote a representation system of variable geometry for non-G20 countries with reference to specific topics of interest.

Turkey will hold the G20 presidency in 2015 and China in 2016. From 2016 on, the G20 will ensure the presidency rotates by region (see Figure 7).

2.4 Financial Stability Board

Representation of Switzerland in the FSB
The Basel-based Financial Stability Board (FSB), the key international forum in the area of financial market regulation, continued to push ahead with work on the adoption and implementation of international regulatory standards in 2014. With two seats in the FSB, Switzerland’s interests are represented by the FDF and the SNB. In addition, FINMA is represented in the FSB through various working groups.

Systemically important financial institutions
The limitation of risks posed to financial stability by systemically important financial institutions remains a key area of work for the FSB. According to the list updated by the FSB in November 2014, these financial institutions include 30 globally systemically important banks, including the two Swiss big banks. To raise the loss-
absorbing capacity of these banks, the FSB prepared a proposal for a new capital standard which was submitted for public consultation in November 2014. The total loss absorbing capacity (TLAC) requirement should supplement the Basel III regulatory capital regime and the capital surcharges approved by the FSB and Basel Committee for global systemically important banks. The TLAC requirement should ensure that sufficient liabilities capable of being bailed in, i.e. converted into equity capital, are available to enable the recovery and resolution of a bank without the use of public funds. This is yet another important step towards alleviating the too big to fail (TBTF) problem. Swiss authorities are therefore working within the FSB towards an ambitious, uniform TLAC standard. Based on the findings from the consultation and an impact study, the FSB aims to have finalised and approved the TLAC requirement by the G20 summit at the end of 2015.

For Switzerland, another key issue is cross-border cooperation in bank resolution. The progress made in this area in 2014 includes the financial industry’s amendment of internationally used master agreements for derivatives contracts in order to facilitate the cross-border enforcement of measures passed by a resolution authority (known as an ISDA protocol). Since 2013, the FSB has also been compiling a list of global insurers deemed to be systemically important, which are defined as such using a method of the International Association of Insurance Supervisors (IAIS). The updated list from November 2014 contained nine insurers (unchanged), none of which were Swiss companies. In 2014, the FSB postponed the decision regarding the systemic importance of big reinsurers until further work on the method is completed. Global systemically important insurers will be subject to additional requirements on capital, supervision and resolvability. In October 2014, the IAIS presented an initial basic capital standard for global systemically important insurers as the basis for additional capital requirements. The plan for the medium term is to replace this standard with a more sophisticated capital standard to be drawn up by the IAIS for insurers operating internationally. Switzerland is also concerned by this work and will continue to support the development of a capital standard of this kind.

In addition, the FSB and the International Organization of Securities Commissions (IOSCO) are working on a method for defining global systemically important financial institutions, such as exchange traders or finance companies which are not banks or insurers. To this end, the FSB launched a second public consultation in early 2015.

Other work of the FSB
A second priority for the FSB is the reform of over-the-counter (OTC) derivatives trading regulation. This calls for the reporting of derivative transactions, the processing of derivatives trading through central counterparties, the shifting of trade to electronic platforms as well as additional capital requirements and risk mitigation obligations for non-centrally cleared derivatives. In 2014, the FSB published two more reports on the implementation of these reforms. The new rules are due to be implemented in Switzerland with the introduction of the new Financial Market Infrastructure Act (see section 3.3.2). At the international level, further progress has been made on implementation in general, particularly with regard to the reporting duty. However, in 2014 and as part of a peer review currently under way until spring 2015, the FSB was busy examining barriers which make it difficult for the supervisory authorities to effectively use data reported to trade repositories. Key
issues for Switzerland which the FSB will also look into in 2015 are the stability of financial market infrastructures and the avoidance of duplications through the recognition of equivalent foreign regulations, i.e. deference.

A third focal point for the FSB is the supervision of non-banks that are involved in credit intermediation (known as shadow banks). Since 2012, the FSB and standard-setters have adopted various regulatory standards to counteract the migration of risks from the banking sector to less strictly regulated sectors. Other standards were added in 2014, such as in the area of securities lending and repo transactions. The FSB will conduct a peer review on regulation of the shadow banking sector in 2015.

In 2014, the FSB also tackled issues such as the implementation of Basel III, the functioning of currency benchmarks and the effects of financial market regulation on investments and emerging market countries. The FSB also concluded a peer review in 2014 on implementation of the FSB principles for reducing reliance on ratings of credit rating agencies. As part of this review, the FDF published an action plan. Further progress has been made on the introduction of the Legal Entity Identifier (LEI) system, a universal system for identifying legal entities, launched by the FSB. In addition to the State Secretariat for International Financial Matters (SIF), the Federal Statistical Office has also had observer status in the regulatory oversight committee for the LEI system since 2014. An annual overview of the implementation of internationally agreed reforms is provided by the FSB’s Implementation Monitoring Network working group, which has been headed by the FDF since 2012. Finally, the FSB decided in 2014 to grant five emerging market countries a second seat at the expense of five international organisations which until then had held two seats.
2.5 Combating money laundering and terrorist financing

2.5.1 Implementation of the revised FATF standards

On 13 December 2013, the Federal Council adopted the dispatch on the proposed new Federal Act for Implementing the Revised Recommendations of the Financial Action Task Force (FATF) of 2012, and submitted it to Parliament. The bill aims to complete Switzerland’s system against money laundering and terrorist financing in terms of standards and to strengthen its effectiveness in accordance with the new international standards set by the FATF and Global Forum.

While the Council of States largely supported the Federal Council’s bill in its first reading and confirmed its stance on the bill’s most important points in its second reading, the National Council differed from the opinion of the Council of States in June 2014. The differences were then settled, enabling Parliament to adopt the bill on 12 December 2014. The requirements of the FATF and the Global Forum in particular can be met by means of this act. The Federal Act for Implementing the Revised Financial Action Task Force (FATF) Recommendations will thus come into force on 1 July 2015, as initially planned.

2.5.2 National risk analysis

As a result of the revision of the FATF recommendations in 2012, countries must now systematically and regularly assess their risks of money laundering and terrorist financing, in accordance with the first FATF recommendation, and use this assessment to put a system in place that effectively reduces these risks. To this end, the Federal Council strengthened coordination within the Federal Administration by creating the interdepartmental working group «Coordinating group on combating money laundering and the financing of terrorism (CGMF)» on 29 November 2013.

As a permanent body, CGMF is under the leadership of the SIF. It includes several federal departments and is comprised of members of the management of various federal offices. It consists of three permanent technical working sub-groups that report to it and have been assigned specific tasks in the areas of risk assessment, exchange of information, coordination of operational matters and processing of foreign terrorist lists. During its constituent sitting in February 2014, the group decided to draw up a national risk assessment report by the start of 2015 which would serve specifically as an overall mapping of the money laundering and terrorist financing risks in Switzerland. This report will be published and will be based mainly on in-depth risk analyses of the sectors covered by the Anti-Money Laundering Act. Other areas such as real estate, non-profit organisations, cross-border transport of cash and trade in precious metals will also be included. The matter of money laundering risks associated with free ports will be dealt with in the light of the Federal Council’s strategy on free ports and open customs warehouses.

The CGMF met several times in 2014. At least once a year, it informs the Federal Council of the progress of its work.

2.5.3 FATF

The FATF’s work in 2014 mainly involved the following areas:

- Mutual evaluations: the first reports from the fourth round of mutual evaluations, namely those regarding Spain and Norway, were discussed at the FATF’s plenary session in October 2014. Switzerland is committed to clear procedures and to the application of fair evaluation criteria so as to ensure a level playing field for its upcoming evaluation.

- Topics: in relation to the adoption of the guidelines on the transparency of beneficial owners, Switzerland defended the current standard, which does not provide for the abolition of bearer shares. The FATF’s work will continue with an assessment of the risks associated with beneficial owners. On the topic of virtual currencies, the FATF published a typology with definitions that matched those presented by the Federal Council in its report dated 25 June 2014. The FATF’s work in this area will now focus on establishing guidelines on how to deal with virtual currencies. Typological studies are currently under way, particularly on the vulnerabilities associated with gold or with the transport of cash.
– FATF expansion: the FATF decided to examine the applications for FATF membership of Israel, Malaysia, Nigeria and Saudi Arabia. Malaysia has now been granted observer status.

2.6 Bilateral cooperation

2.6.1 Financial dialogues and cultivation of closer contact with leading financial centres

The aim of financial dialogues is to forge and foster close contacts with the relevant authorities of the partner state in question and facilitate a regular exchange of opinions and experiences, as well as give rise to collaboration in areas of mutual interest, such as financial market policy and regulation, and positioning in international financial forums (e.g. IMF, FSB). Furthermore, financial dialogues offer a framework for discussing the market access concerns of the Swiss financial sector with the partner state in question. In collaboration with other agencies and institutions, SIF prepares positions within the Administration regarding financial matters and represents these in financial dialogues.

Existing financial dialogues were pursued further in 2014. Talks were held with the EU as well as with Australia, Brazil, China, Germany, the United Kingdom, Japan and Poland. Furthermore, contacts with the United States, Singapore and Hong Kong were further intensified. SIF intends to continue the financial dialogues and contacts initiated in recent years also in 2015 and to extend these to other selected partner countries where appropriate.

2.6.2 Renminbi hub

China is making steady progress on the possibility of the cross-border use of its currency, the renminbi (RMB), in trade and financial markets. For many years, China’s rapidly growing economy was not reflected to a proportionate extent in the growth of the renminbi’s international role. However, this changed in the wake of the global financial crisis, which has noticeably created the scope and demand to carry out cross-border transactions in renminbi or use the renminbi for diversifying currency portfolios. Despite the fact that the importance of the renminbi as a transaction currency is negligible in absolute terms, it is evident that the volume of cross-border transactions has grown rapidly.

According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the proportion of international payments carried out in renminbi between January 2013 and October 2014 rose from 0.6% to 1.7%.

As part of the gradual internationalisation of the renminbi, which has been accompanied by financial market reforms in China, the Chinese authorities are specifically supporting the establishment of RMB hubs abroad. The conditions should therefore be created for promoting the use of the renminbi as a currency for trade and investment and at the same time for increasing the efficiency of the domestic financial market. The Swiss financial sector is involved in this development and is interested in steadily expanding the selection of corresponding financial products and services in Switzerland too. Today, RMB accounts, RMB payments, trade and export financing and currency hedging are already being offered both in and from Switzerland.

Switzerland is eager to prepare the necessary framework conditions so that the economy can benefit from the opportunities arising for trade and the financial services business from the internationalisation of the renminbi.² In May 2013, SIF and the People’s Bank of China laid the foundations for regular bilateral financial dialogue in a memorandum of understanding. Under the leadership of SIF, Switzerland intensified its collaboration with China in the financial sector during the first two rounds of dialogue in December 2013 and June 2014, and worked towards increasing Switzerland’s involvement in the internationalisation of the renminbi. Moreover, the banking associations of both countries organised a financial round-table event on the fringes of the 2014 financial dialogue to promote exchange and intensify cooperation at sectoral level too.

² The Federal Council supports the objective of intensifying economic and currency relations with China and is committed to ensuring that progress is made in this area. These remarks give information on the measures taken in line with the Federal Council’s response to Motion 14.3003 of 17 January 2014.
Following these meetings, the Swiss National Bank and the People’s Bank of China signed a currency swap agreement on 21 July 2014. The agreement enables the purchase and redemption of renminbi and francs between the two central banks, as a result of which the required liquidity can be provided when necessary. The swap agreement is an important condition for the further development of the renminbi market in Switzerland. Switzerland also expressed its wish that Swiss banks be able to participate in Chinese investment programmes, including the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, which would enable Switzerland to make direct renminbi investments in China.

Other measures discussed regarding the promotion of renminbi business activities include the possibility of renminbi clearing in Switzerland. The physical presence of a Chinese bank in Switzerland would be important for this. The framework conditions for this are basically in place and the Federal Council would welcome the establishment of Chinese banks in Switzerland. The economic decision in favour of business activity in Switzerland lies with the Chinese banks and also depends on the estimated development potential of the volume of renminbi business in Switzerland. This potential increases the more companies and the financial sector in Switzerland engage in renminbi business. The free trade agreement and the new double taxation agreement between Switzerland and China, which came into force on 1 July 2014 and 8 November 2014 respectively, may give new impetus to this activity.

2.6.3 Regulatory dialogue with the EU
The EU’s regulatory efforts are creating major challenges for Switzerland’s financial market policy. Access to the EU/EEA area is of utmost importance for the Swiss financial centre. Swiss financial intermediaries export a significant proportion of their services to the European domestic market, which has always been a key area for Swiss financial institutions’ cross-border business because of the close geographic and cultural ties. Despite subdued growth momentum and indications of saturation, the EU market is still important for cross-border business. The ongoing further development of EU law is creating new obstacles for market access. If Switzerland loses cross-border access to important areas of the EU financial market, this could have far-reaching consequences for the competitiveness of the Swiss financial centre.

European legal developments play a key role here. In recent years, considerable progress has been made on the harmonisation of the traditionally very fragmented national market access guidelines for financial service providers from third countries, such as Switzerland (see also the box in section 3.3.3). This growing harmonisation presents Switzerland with both opportunities and risks. On the one hand, harmonised market access regulations set clear requirements and criteria for market access which serve to guide third countries. On the other hand, the European Commission’s checking of these equivalence requirements involves considerable uncertainty from the third country’s point of view.

Against this backdrop, Switzerland’s annual regulatory dialogue with the European Commission, initiated in 2012, is all the more important. This institutionalised contact with the specialist authorities of the European Commission enables Switzerland to discuss problem areas and bring Swiss concerns to the table, obtain information on current developments at first hand and...
thereby identify any need for action at an early stage. In addition to the dialogue that takes place annually, various discussions on regulatory issues are also held regularly at a technical level with the European Commission. The third regulatory dialogue held on 26 September 2014 focused on market access issues.

2.6.4 International activities in the area of customs

International financial matters also concern the area of activity of the Federal Customs Administration (FCA).

In the area of customs and indirect taxation, Switzerland has concluded – partly together with EFTA countries – bilateral administrative assistance agreements with the EU and its member states, as well as with Iceland, Israel, Norway, Colombia, Peru, the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland) and Turkey. In the case of the EU and its member states, these agreements are supplemented by the anti-fraud agreement, which has still not come into force due to its pending ratification by some EU member states, but which is provisionally applied with several EU member states. The agreements are designed above all to ensure compliance with customs law and indirect taxation law in connection with the international movement of goods and the detection and prosecution of corresponding violations. The Federal Customs Administration provides regular administrative assistance as well as international mutual assistance in criminal matters. Mutual assistance frequently involves the disclosure of bank documents. Switzerland is still engaged in negotiations with the United States on an administrative assistance agreement in the customs area.

The FCA also provides technical support to a number of partner countries, such as the countries of Switzerland’s IMF constituency. The provision of specific expertise can make a major contribution to improving the efficiency of customs authorities. Greater financial efficiency in turn contributes to the strengthening of government finances in these countries. At the same time, more professional customs clearance and greater effectiveness in combating cross-border crime and terrorism facilitates the exchange of goods in global trade to a significant degree. In 2014, for instance, the FCA intensified its cooperation with the customs administrations of Kyrgyzstan and Azerbaijan. Furthermore, the FCA supported and successfully carried out several short-term missions launched by the OSCE in Central Asia under the 2014 Swiss OSCE Chairmanship.

2.6.5 Agreement with Liechtenstein in relation to insurance against natural forces

On 4 December 2014, an agreement in the area of private-law insurance against natural forces was negotiated with Liechtenstein. In support of this, the financial market supervisory authorities agreed on improvements in their collaboration in the insurance sector. The agreement creates legal foundations which strengthen legal certainty and transparency in this area of insurance business on a cross-border basis with Liechtenstein. Under the agreement, Liechtenstein will commit to writing the Swiss regulations on insurance against natural forces into its own national law. The aim is to sign the agreement in 2015 and advance the internal approval processes.
Outlook: In 2014, the FDF reviewed the too big to fail provisions based on Article 52 of the Banking Act. A corresponding report will be submitted to the Federal Assembly before March 2015. This will examine the extent to which international standards are implemented in Switzerland, present developments abroad and point out any need for action in terms of laws and ordinances. The evaluation will be based on the report of the group of experts on the “Further development of the financial market strategy”. The dispatch on the Federal Act on Financial Services (FinSA) and the Federal Act on Financial Institutions (FinIA) should be adopted in the summer of 2015. Work on the Financial Market Infrastructure Act (FMIA) should be pursued at the ordinance level in 2015 in order to enable the act and ordinance to enter into force at the start of 2016.

3.1 Overview
In order to minimise the stability risk of the Swiss financial centre, Switzerland responded rapidly following the financial crisis and implemented the corresponding regulations (too big to fail, TBTF). Section 3.3.2 contains an international comparison of these regulations. In the area of regulation, the three new financial market laws that are planned are also worthy of mention (Financial Services Act, Financial Institutions Act and Financial Market Infrastructure Act). These reform projects will also simplify and modernise the financial market legislation system at the same time. A function-oriented architecture should be sought for financial market legislation instead of the diversity of laws that has grown over time.

3.2 Significance of the Swiss financial centre
Switzerland’s financial centre makes a significant contribution to gross value added and employment (see Figure 11).

In 2013, total value added of approximately CHF 65 billion was generated through the provision of financial and insurance services. This equates to a 10.3% share of gross domestic product (GDP), which is similar to the level in other major financial centres: 8.6% in the United Kingdom, 11.2% in Singapore and 6.6% in the United States. However, it is considerably lower than Luxembourg’s 25.4% (see Figure 12). The financial sector has grown at an above-average rate relative to the Swiss economy over the past 20 years: while GDP grew by a factor of 1.6, the added value of the Swiss financial centre virtually doubled. Some 210,000 people were working in the Swiss financial sector at the end of 2013, which corresponds to a share of almost 6.0% of total employment.

Shadow banking
Shadow banking is broadly defined as credit intermediation involving entities and activities outside the regular banking system. Hedge funds and other types of funds or leasing firms are examples of entities in the shadow banking system. This system can have a positive impact on the financial system in terms of innovation, efficiency and diversification, but it can also carry risks for financial stability. The FSB publishes the annual Global Shadow Banking Monitoring Report in a bid to measure the extent of these risks. Although the
Swiss shadow banking system accounts for only 2% of the global shadow banking system, this report places Switzerland among the top three countries in terms of the size of their shadow banking system in relation to GDP.

The FSB uses a very broad methodology in order to be able to make an international comparison. However, this methodology causes the size of the shadow banking sector to be overestimated, particularly in the case of Switzerland. Consequently, the FDF, SNB and FINMA launched a more detailed analysis of the Swiss shadow banking system, and part of this was published as an annex to the FSB’s 2014 report. Swiss estimates regarding the size of the Swiss shadow banking system in 2012 vary from CHF 315 billion to CHF 480 billion, which is far lower than the FSB’s broad estimate of CHF 1,500 billion. The Swiss authorities’ estimate is lower mainly because it excludes activities that do not involve any credit intermediation, i.e. equity funds and corporate participations of holding companies. The latter represent a particularly large amount in Switzerland.

Estimated at CHF 480 billion, Switzerland’s shadow banking system is more than five times smaller than the Swiss banking sector. Moreover, most of the activities identified, 60% of which are funds, are regulated and supervised by FINMA. It is nonetheless important to continue to carefully monitor the development of the shadow banking system and the risks likely to threaten the financial sector's stability.

Switzerland had a total of 283 banking institutions at the end of 2013, and over 40% of these were foreign banks. Banks are key players in the financial markets, playing an intermediary role between the supply and demand sides where capital is concerned. Both companies and private households are reliant on a sufficient supply of credit funding. At the end of August 2014, the outstanding credit volume, i.e. the amount of credit from banks actually being used, amounted to approximately CHF 1,214 billion. Three quarters of this amount related to domestic mortgage receivables. The strong competition between the many providers contributes to the relatively low financing costs in Switzerland, e.g. in the form of low interest rates and interest rate margins. However, there is also uncertainty in the real estate market. In order to avoid dangerous developments as a result of imbalances, it is crucial for banks to pursue a sound lending policy. Such a policy also depends on the state framework put in place: for example, the persistently strong momentum on the credit market caused the countercyclical buffer to be raised from 1% to 2% from 30 June 2014 onwards. This should help maintain, or further increase, the resilience of the banking sector to any correction in the imbalances on the mortgage and real estate markets.

In addition to banks, insurers, pension funds and independent asset managers also form part of the financial sector. In 2013, there were 223 insurance companies under regulatory supervision in Switzerland, and more than half of these were active in the property and casualty business (i.e. non-life). The capital investments of Swiss insurers amounted to some CHF 540 billion at the end of 2013. Half of this sum was invested in fixed-income securities. Almost 2,200 pension funds and some 2,300 independent asset managers are likewise important players in the financial centre. At the end of 2012, pension funds’ invested capital amounted to CHF 673 billion, of
which a third was invested in bonds and a quarter in equities. According to Zurich University of Applied Sciences (ZHAW) estimates, independent asset managers managed client assets of approximately CHF 560 billion in 2012.

3.3 Framework conditions

3.3.1 Financial market

The Federal Council appointed a broad-based group of experts with a mandate up to the end of 2014 for the further development of the financial market strategy. Isolated from the authorities’ daily business, this group of experts under the leadership of Professor Aymo Brunetti addressed the financial centre’s challenges within Switzerland as well as its opportunities abroad based on the existing principles for financial market policy.

It conducted in-depth analyses in the four areas of market access, economic risks, the tax environment and the regulatory process and implementation, and submitted these to the Federal Council at the end of 2014. The group of experts suggested targeted measures to the Federal Council to obtain or improve market access. In terms of economic risks, a need for action was identified in both the banking and non-banking sector. Recommendations on the revision of withholding tax were developed in the tax area. In the regulatory area, primarily the implementation of the existing principles should be improved according to the group of experts’ findings. The Federal Council will decide the approach to be taken based on these recommendations.

Instead of the group of experts, a “future of the financial centre advisory board” is to be appointed in 2015. This advisory board, likewise chaired by Professor Aymo Brunetti, should ensure regular exchanges on financial market strategy issues between all of the main players and assess the strategic challenges and the future prospects for financial business in Switzerland with regard to the economy as a whole.

3.3.2 Regulatory projects

Too big to fail

Systemically important financial institutions represent a stability risk, as their collapse would entail unacceptable risks for the economy in question. Switzerland was one of the first countries to bring provisions concerning the too big to fail problem into force on 1 March 2012. The aim of these measures is to reduce the probability of a collapse of a systemically important financial institution or mitigate the adverse effects of insolvency if that should nonetheless occur despite all preventive measures. The distortionary impact of the implicit state guarantee on competition will thus be reduced significantly, as will the risk that the state will have to assume major financial risks to save such a bank.

Relative to the Basel III standards, the measures provide for more stringent requirements in terms of capital, liquidity, risk diversification and organisation. New capital instruments (subordinated contingent convertible bonds, or CoCos) are introduced.

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4 According to SNB decisions, UBS, Credit Suisse, Zürcher Kantonalbank (since November 2013) and the Raiffeisen Group (since June 2014) are systemically important Swiss banks.
help banks meet the tougher capital base requirements. The emergency plan as part of a global recovery and resolution plan serves to maintain systemically important functions (particularly payment transactions, the deposit business and the lending business) in the event of threatened bank insolvency.

The aforementioned measures are reflected primarily in the new articles of the Banking Ordinance and the Capital Adequacy Ordinance, which came into force on 1 January 2013. Added to these are the supplementary requirements set out in the new Liquidity Ordinance, which the affected banks have been implementing gradually since January 2013. In the light of the preliminary work on emergency plans, both of the big banks adjusted their legal structure or announced that they would do so in order to be in a position to preserve systemically important activities in the event of a crisis

**Basel III**

The Swiss requirements regarding capital and liquidity regulation are closely aligned with the recommendations of the Basel Committee on Banking Supervision for minimum standards (Basel III).

The revised, more stringent capital requirements in accordance with Basel III have been implemented in Swiss law (Capital Adequacy Ordinance, CAO) since 1 January 2013, with certain transition periods up to 2018. Within the scope of its 2013 Regulatory Consistency Assessment Programme (RCAP), the Basel Committee concluded that the Swiss capital regulation was largely in line with Basel III and awarded the top grade of “compliant” in its overall assessment. Certain marginal deviations that were detected during the RCAP have already been addressed by means of CAO amendments and various FINMA circulars.

Switzerland implemented the liquidity recommendations of the Basel Committee in a new ordinance (Liquidity Ordinance, LiqO), which likewise came into force at the start of 2013. Aside from qualitative requirements, the liquidity regulations also contain quantitative requirements, which have been adjusted with effect from 1 January 2015. The quantitative indicator developed by the Basel Committee, the liquidity coverage ratio (LCR), will now be used. The net stable funding ratio (NSFR) was adopted by the Basel Committee in 2014 and should come into force at the start of 2018.

**Financial Services Act (FinSA) / Financial Institutions Act (FinIA)**

The aim of the regulatory projects on the two new acts on financial services (FinSA) and financial institutions (FinIA) is to boost the quality of the services provided by Swiss financial institutions and increase client protection. At the same time, regulation that is compatible with international standards and equivalent to that of the EU should be created, particularly with the FinSA. Finally, a level playing field is to be created.

The Federal Council initiated the consultation on the two acts on 25 June 2014, and this ended on 17 October 2014. The dispatch for the attention of Parliament should be adopted in the summer of 2015.
International developments in the supervision of systemically important banks (as at end 2014)

At an international level and in significant financial centres, efforts are currently under way to introduce additional regulations for systemically important financial institutions (SIFIs). An important basis is formed by the Basel III capital and liquidity guidelines (see section 3.3.2), which impose more stringent requirements for the capital that banks must hold to underpin risk-weighted assets (RWA), in particular. According to the G20, all important financial centres and member countries are to introduce these guidelines in their jurisdictions in order to limit the risks they pose to financial stability.

In the case of SIFIs, the package of measures of the Financial Stability Board (FSB) to regulate global SIFIs (G-SIFIs) was approved by the G20 on 4 November 2011.1 In addition to a size-dependent capital supplement of 1% to 3.5% of RWA in accordance with Basel III (CET1 from 10.5% to 13.5%), this also includes requirements in the area of risk management and internal controls. Furthermore, there is to be a separate capital requirement for SIFIs, which they must provide to underpin risk-weighted assets (RWA), in particular. According to the G20, all important financial centres and member countries are to introduce these guidelines for all banks.

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Further country-specific or economic area-specific requirements for systemically important banks in the area of capital and organisation are set out in the following table:

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1 The Basel Committee presented a revised version of the Basel III leverage ratio in February 2014. Amendments to this version are still outstanding in all jurisdictions.

2 At present, a progressive component of approx. 4% RWA and thus total capital requirements of 17% RWA and approx. 6% leverage ratio are assumed for both Swiss big banks.

3 The United States, the United Kingdom, and the European Union have already defined new capital requirements for the systemic importance of domestic banks.

4 Measures for a crisis scenario

5 An international standard for total loss-absorbing capacity (TLAC) is being developed under the leadership of the FSB. TLAC includes not only regulatory capital but also bail-in instruments, which provide the liability substrate in the event of restructuring. The strategic directions were published in November 2014.

The Basel Committee presented a revised version of the Basel III leverage ratio in February 2014. Amendments to this version are still outstanding in all jurisdictions. At present, a progressive component of approx. 4% RWA and thus total capital requirements of 17% RWA and approx. 6% leverage ratio are assumed for both Swiss big banks. The United States, the United Kingdom, and the European Union have already defined new capital requirements for the systemic importance of domestic banks. Measures for a crisis scenario

An international standard for total loss-absorbing capacity (TLAC) is being developed under the leadership of the FSB. TLAC includes not only regulatory capital but also bail-in instruments, which provide the liability substrate in the event of restructuring. The strategic directions were published in November 2014.
The FinSA governs financial institutions’ relationship with their clients with regard to the most important financial products and harmonises the associated code of conduct. According to the consultation draft, financial service providers have to take account of their clients’ financial situation as well as their knowledge and experience when advising them. An easy-to-understand key information document is always to be prepared for financial instruments to enable clients to make informed investment decisions and compare products. The consultation draft further contains uniform prospectus requirements for all publicly offered securities. In order for improvements to be made concerning private actions in the event of misconduct by financial service providers, new forms of collective enforcement, strengthening of the ombudsman service and the introduction of a court of arbitration or a procedural costs fund have been proposed. Finally, provisions for the inbound cross-border business have also been put up for discussion.

The FinIA brings together various existing laws on the supervision of financial institutions that operate an asset management business in any form whatsoever in a new piece of legislation. According to the consultation draft, managers of individual client assets as well as those who manage the assets of Swiss occupational benefits schemes will also be subject to an authorisation requirement in the future. The creation of a level playing field should minimise competitive distortions between providers.

Financial Market Infrastructure Act FMIA
The Financial Market Infrastructure Act sees the preparation of financial market infrastructure regulation that is aligned with market developments and international requirements as well as duties for financial market participants in securities and derivatives trading. It should boost the stability and competitiveness of Switzerland’s financial centre and improve the protection of financial market participants.

The Federal Council adopted the dispatch on the Financial Market Infrastructure Act on 3 September 2014. If it is adopted by Parliament, the FMIA could enter into force in 2016 at the earliest.

The regulatory plans of the EU and other countries – particularly the United States and Japan – in the area of derivatives trading are already well advanced or finalised. Decisive among these in the EU are the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Directive (MiFID II) and the associated Markets in Financial Instruments Regulation (MiFIR), as well as the Regulation on Securities Settlement and on Central Securities Depositories (CSDR). In the United States, the provisions on derivatives transactions are laid down in the Dodd-Frank Act. In addition, a number of EU provisions on third-country regimes are based on the principle of equivalence. This means that Swiss market participants will become less competitive or Swiss financial market infrastructures will lose access to the EU market if Switzerland does not implement regulation deemed to be equivalent to that in the EU in good time. If Switzerland is to ensure market access in the EU and the competitiveness of its financial centre, it must quickly seek regulation that is equivalent to that in the EU with the FMIA.

Insurance Oversight Ordinance IOO
At the end of 2013, FINMA presented a proposal for a partial revision of the Insurance Oversight Ordinance in consultation with the FDF. The
main aim is to obtain the recognition of equivalence of the Swiss insurance oversight system sought from the EU. In a 2011 report, the competent EU authority (EIOPA) recognised a large degree of equivalence regarding Swiss regulation and oversight, but with certain caveats regarding the solvency regime for reinsurance captives, public disclosure requirements and corporate governance. These three caveats are to be eliminated with the partial revision. The European Commission’s equivalence decision is expected in the spring of 2015.

Further components of the partial revision concern the interplay of the various model types that currently exist for insurers’ solvency calculations, the calculation and formation of provisions and other items.

FINMA, the FDF and the insurance industry refined the ordinance proposal in several steps in 2014, with the result that a hearing could finally be conducted in December 2014. The partial revision is to be brought into force on 1 July 2015.

3.3.3 Market access
Within the scope of the reform of financial market regulation in the wake of the financial crisis, the framework conditions for the cross-border financial services business were tightened up, which made market access more difficult for Swiss providers abroad. For the Swiss financial centre with its leading position in the asset management sector, cross-border access to foreign financial markets is a key success factor. If this cannot be preserved, adverse effects on competitiveness and on the creation of value added in Switzerland cannot be ruled out. Maintaining and possibly improving market access are a priority strategic objective of the Federal Council. Within the framework of its financial market policy, it acts on several levels and together with various partners in order to bring Swiss market access interests to bear in a targeted manner, namely bilaterally with individual states or with the EU, as well as multilaterally in key standard-setting bodies such as the Financial Stability Board (FSB).

In order to secure and improve international market access for Swiss financial service providers, a situation analysis and an assessment of various potential areas for action were conducted within the scope of the work of the group of experts for the further development of the financial market strategy (see section 3.3.1). According to this work, it has to be assumed that access to key markets will deteriorate if solutions to improve market access and dialogue with partner countries and the EU are not sought. Possible courses of action identified by the group of experts which should be examined in greater depth include the conclusion of bilateral market access agreements with important partner states, the equivalence approach with the EU where this is desirable (see box) as well as a possible financial services agreement with the EU.

On the bilateral level and within the framework of its financial market policy, Switzerland is endeavouring with selected partner states to work towards preserving and improving market access for Swiss financial intermediaries and thereby increasing legal certainty for cross-border activities. This is typically undertaken in the context of settling overall relations with the corresponding country in the financial sector, including tax issues. The Federal Council thus resolved on 8 October 2014 that the preservation and improvement of market access are also to be called for and sought within the scope of negotiations on the automatic exchange of information. Already in the past, the framework conditions for financial market access were addressed bilaterally and set out in joint agreements within the scope of the withholding tax agreement negotiations with the United Kingdom and Austria. An agreement at finance ministry level was also achieved with Germany in 2013, which should facilitate market access for Swiss providers even if they are not physically present in Germany. Bilateral talks on cross-border market access were initiated at the technical level with France in 2014.

**EU equivalence approach**
The equivalence approach is a legal concept that the EU has increasingly been including in its financial market regulation in recent times in order to regulate market access for financial service providers from third countries in the EU/EEA area in a uniform manner. The approach makes provision for financial service providers from third countries to obtain access
to the European market in certain areas provided they are subject to equivalent regulation and supervision in their country of origin. This should enable cross-border transactions to be conducted and at the same time ensure the protection objectives of EU regulation are met (e.g. client protection and systemic stability) and prevent regulatory arbitrage.

The concept of equivalence is not always formulated uniformly. While most of the equivalence provisions are aimed at a few clearly defined requirements, the Markets in Financial Instruments Regulation (MiFIR), for example, has a broadly defined equivalence provision that requires the equivalence of a whole set of provisions (in this case, supervision and conduct of business rules). Moreover, there is no uniform, clearly defined yardstick for establishing equivalence. This ranges from a legal alignment that is true to the letter to a results-oriented review.

For Swiss financial service providers, important equivalence provisions are found not only in MiFIR, but also in the European Market Infrastructure Regulation (EMIR), for example. Consequently, the aims of the FMIA and FinSA bills (see section 3.3.2) include creating a regulatory framework that is equivalent to that of the EU in order to obtain or maintain access to the European market for Swiss financial service providers in the areas mentioned.

The equivalence approach is interesting from the Swiss perspective, as it allows Switzerland to seek equivalence specifically in those areas that offer high revenue potential. At the same time, equivalence is not a sufficient condition for market access. For example, the European Commission ultimately decides on the recognition of Swiss equivalence, and it cannot be ruled out that such decisions may also be guided by relations between Switzerland and the EU in general. Combined with the fuzzy definition of equivalence, this creates significant uncertainty for Switzerland and its providers. Longer term, the equivalence approach alone does not constitute a sufficient strategy for preserving and improving market access in the EU. In reality, further courses of action also have to be examined in addition.

### 3.3.4 Commodity trading

The commodity trading sector in Switzerland continues to be significant for the economy and the financial centre. This is reflected in net merchanting receipts, for example, which are largely from the commodity sector and amounted to CHF 23.4 billion in 2013 according to the Swiss National Bank’s statistics. While merchanting receipts were thus down slightly on the previous years’ highs, they nonetheless accounted for 3.7% of Swiss GDP (see Figure 16).\(^5\)

As already outlined in the background report on commodities dated 27 March 2013, the Federal Council thus remains committed to strengthening the competitiveness and the integrity of the business location, including the commodity sector. On 26 March 2014, the Federal Council published a report on the status of implementation of the recommendations made in the background report on commodities, and concluded that their implementation was on track. The competent departments quickly set about implementing the recommendations and made considerable progress. The experience gained in the process has shown that the thrust of the recommendations – improving the framework conditions and reducing risks, including reputational risks – has proved its worth. With the exception of some initiatives aimed specifically at the commodity sector, this is done by means of creating general parameters for companies. The sector-specific measures include the preparation of voluntary corporate social responsibility standards for commodity trading as well as the planned introduction of transparency provisions for extractive industry companies within the scope of the revision of the law on companies limited by shares, which will require the disclosure of payments to governments.

Several legislative reforms have been addressed in the FDF’s area of responsibility. These also concern the commodity sector and thereby incorporate recommendations made in the background report on commodities. In the area of financial market regulation, the reforms include the Financial Market Infrastructure Act, which

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\(^5\) Because of the SNB broader data collection method, the merchanting receipts are significantly higher than estimated in earlier publications and the background report on commodities.
Parliament will consider in 2015 (see section 3.3.2), the revision of the anti-money laundering legislation adopted by Parliament in mid-December 2014 (see section 2.5) and the reform of corporate taxation (see section 4.3). Moreover, the foreign trade statistics for gold, silver and coins have been published with a breakdown by country of destination and origin since the start of 2014, thereby implementing another recommendation from the background report on commodities.

The Federal Council attaches great importance to the further implementation of the recommendations made in the background report on commodities and will report on it again in the summer of 2015.

Source: SNB, Monthly Statistical Bulletin (October 2014), own calculation

**Fig. 16**

Great significance of commodity trading for Switzerland

Receipts from merchanting and bank financial services abroad in % of GDP

- receipts from merchanting
- receipts from financial services

Source: SNB, Monthly Statistical Bulletin (October 2014), own calculation
Outlook: The work necessary to lay the foundations for introducing the automatic exchange of information will get under way in 2015, and negotiations will be held with interested parties. The Global Forum will decide in spring 2015 if Switzerland is admitted to the second phase of the peer review. The effectiveness and efficiency of the exchange of information when applying the international administrative assistance standard will be examined in this phase. Where corporate taxation is concerned, Switzerland supports international efforts to ensure fair tax practices and a level playing field for all, and is actively involved in the corresponding OECD project (BEPS). Further outcomes from this project are expected in 2015. Switzerland will make sure that no new cases of double taxation are created and continues to adhere to the principle of tax competition.

4.1 Overview
2014 was an eventful year on the international stage. The Federal Council clearly stated its strategic options, particularly concerning the automatic exchange of information in tax matters (AEOI). Switzerland ensures the credibility, appeal and stability of its financial centre and position as a business location through its involvement in the development and implementation of internationally recognised standards.

In October 2014, the Federal Council adopted the definitive negotiation mandates on the introduction of the new international standard concerning the automatic exchange of information with partner states. The Federal Council will put all AEOI-related drafts out for consultation at the start of 2015. They will then go through the standard approval process and should be able to enter into force in 2017 if they are adopted.

In the area of business taxation, Switzerland and the EU signed a mutual understanding in October 2014. This marked the end of almost a decade of controversy between Switzerland and the EU which occasionally put relations between the two partners under considerable strain. Work with regard to the base erosion and profit shifting (BEPS) project continued with great intensity in 2014. The OECD published the first outcomes in September 2014. The work should be finalised by the end of 2015.

Based on Switzerland’s progress, the Global Forum authorised it to submit a supplementary report in June 2014, and this will be discussed in February 2015. If it is approved, Switzerland will be able to move to a phase 2 review, which could be launched before the end of 2015.

Finally, Switzerland intensely pursued tax cooperation with important partners such as France, Italy, the United States and India. Concerning the United States, the FATCA agreement and the implementing act came into force in June 2014. In October 2014, the Federal Council decided to commence negotiations on introducing the automatic exchange of information with the United States based on Model 1. The execution of the US programme for banks is ongoing. The first agreements are expected in 2015.

4.2 Exchange of information for tax purposes

4.2.1 OECD standard on the automatic exchange of information

Timeline
Efforts to establish a global standard for the automatic exchange of information (AEOI) advanced very rapidly in 2014. Switzerland was actively involved in this work.

The OECD published the AEOI model agreement and the common reporting standard (CRS) on 13 February 2014. In March 2014, more than 40 states committed themselves in a joint statement to early adoption of the global AEOI standard developed by the OECD. This so-called early adopters group plans to collect data from 2016 and exchange information for the first time in September 2017. In a next step, 48 states (all 34 OECD member countries along with 14 other states) and the European Commission endorsed an AEOI political declaration during the OECD’s Ministerial Meeting held on 6 and 7 May 2014. The declaration confirmed their intention to combat tax fraud and evasion by means of AEOI and their determination to implement the standard quickly.
On 15 July 2014, the OECD Council approved the finalised full version of the standard, consisting of the model agreement, the CRS, commentaries on both of these documents and guidance for IT solutions. In addition to approving the standard, the OECD Council issued a recommendation in which the OECD member states and other states that endorsed the recommendation undertook to adopt the AEOI standard.

The G20 finance ministers then confirmed the new AEOI standard during their meeting held on 20 and 21 September 2014 in Cairns, Australia. During the October plenary meeting of the Global Forum in Berlin, 93 states committed themselves to the exchange of information in accordance with the AEOI standard; 58 from 2017 and the remaining 35, including Switzerland, from 2018 (see fig. 17). This progress was welcomed during the G20 summit held in Brisbane on 15 and 16 November 2014.

In addition, 51 states signed the Multilateral Competent Authority Agreement (MCAA) on the fringes of the plenary meeting. The Federal Council agreed to a declaration on Switzerland’s participation in the MCAA on 19 November 2014. The agreement makes provision for the automatic exchange of information being activated bilaterally (see the implementation section for further details).
Content of the OECD standard

The OECD’s AEOI standard consists of the model agreement, the common reporting standard (CRS), the commentary on both of these documents, as well as guidance for IT solutions.

The model agreement sets out the information that is to be exchanged between the two contracting states and governs how the exchange is to take place (time and form of transfer). Data protection and the principle of speciality are governed in the same way as for the exchange of information on request.

The model agreement further governs cooperation between the competent authorities in the event of errors, application problems and interpretation differences. In the event of failure to comply with the obligations set out in the agreement, e.g. those regarding data protection or the principle of speciality, the partner state can suspend or terminate AEOI implementation.

The rights and obligations contained in the model agreement are identical for both of the contracting parties. The OECD documentation emphasises that AEOI is based on the principle of reciprocity. The contracting states can, however, agree to enter into non-reciprocal agreements in certain situations, e.g. if a contracting partner has no income tax.

The CRS sets out the details of who has to collect and transfer which information on which accounts. It is essentially based on the FATCA model. Not only banks, but also certain collective investment vehicles and insurance companies have to collect financial information on their clients. The information to be transferred includes the identity of the client, all types of capital and investment income, as well as the account balance. Moreover, the scope of application extends to the accounts of both natural persons and legal entities. In the case of passive legal structures that do not exercise any economic activity and merely administer assets, e.g. trusts, the natural persons who control the structure in question have to be identified in line with the FATF rules. The CRS also contains precise rules that dictate the client identification procedure.

The commentary contains more precise details on the model agreement and on the CRS. The aim of the commentary is to anticipate as many application questions as possible and set out clear rules so that the standard adopted by the OECD is interpreted in a uniform manner and a level playing field can be ensured.

The guidance for IT solutions ensures that everyone uses the same formats, thereby simplifying data collection and analysis. Furthermore, it sets

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How the automatic exchange of information works

<table>
<thead>
<tr>
<th>Country A</th>
<th>Country B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxpayer in country A has a bank account in country B</strong></td>
<td><strong>Bank in country B discloses financial acc. data to authorities in country B</strong></td>
</tr>
<tr>
<td><strong>Authorities in country A can examine foreign financial account data</strong></td>
<td><strong>Authorities in country B automatically forward information to authorities in country A</strong></td>
</tr>
</tbody>
</table>

This information is exchanged:

- Account number
- Name, address, date of birth
- Tax identification number
- Interest, dividends
- Receipts from certain insurance policies
- Credit balances on accounts
- Proceeds from the sale of financial assets

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Fig. 18
out minimum standards for data security and transmission.

It is important for the Federal Council that the requirements it adopted in June 2013 are contained in the new standard. There is to be only one global standard, the exchanged information should be used solely for the agreed purpose (principle of speciality), the information should be reciprocal, i.e. should flow in both directions, data protection must be ensured and the beneficial owners of trusts and other financial constructs should also be identified. The OECD standard corresponds to the Federal Council’s original guidelines, which is why the AEOI should be implemented on this basis.

Implementation
The Federal Council adopted the negotiation mandates for AEOI implementation on 8 October 2014. These relate to the EU, the United States and other countries with which there are close economic and political ties.

Two possibilities are in the foreground for AEOI implementation. Firstly, it is possible to agree to AEOI implementation in bilateral treaties, as is being contemplated with the EU and the United States. Secondly, the automatic exchange of information can be implemented on the basis of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information (MCAA). The MCAA is based on the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters (administrative assistance convention)\(^6\). The MCAA can be signed by any state that has at least declared its intention to sign the administrative assistance convention. It is designed as an agreement between the competent authorities, whereby signature by a state is without prejudice to a corresponding parliamentary decision in that state.

The MCAA makes provision for the automatic exchange of information being activated bilaterally between the signatory states, provided both states have brought the administrative assistance convention into force, have signed the MCAA, and have confirmed that they have the laws.
necessary for implementing the AEOI standard. Moreover, both states must have informed the MCAA secretariat that they wish to exchange information automatically with the other state. The list of states with which a country wishes to exchange information automatically can be submitted when signing the multilateral agreement or at a later date.

Switzerland is striving to create the necessary legal framework in order to collect data from 2017 and exchange data with partner states within the framework of AEOI from 2018. The Global Forum was informed of this schedule in October 2014. It is also part of Switzerland’s declaration on the MCAA.

4.2.2 OECD standard for the exchange of information upon request

The Federal Council initiated the consultation on the proposed Federal Act on the Unilateral Application of the OECD Standard on the Exchange of Information on 22 October 2014. The proposed Federal Act is based on the Federal Council’s decision of 19 February 2014 aimed at unilaterally extending the exchange of information upon request in accordance with the OECD standard to all states and territories covered by a double taxation agreement (DTA) that is in force and that is not in line with the standard in question.

The unilateral extension of the exchange of information upon request in accordance with the OECD standard is part of the Federal Council’s strategy for a competitive financial centre that complies with international standards in tax matters, particularly those concerning transparency and the exchange of information. Compliance with the international exchange of information on request standard is assessed during the peer review conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum). The unilateral extension will be done subject to reciprocity and protection of the confidentiality of the data exchanged by the states or territories concerned.

4.2.3 Global Forum

The Global Forum uses a comprehensive peer review process to ensure that the international standards regarding transparency and the exchange of information for tax purposes are complied with and are implemented in a uniform manner internationally. The Global Forum is the largest organisation in the tax area, as it currently has 122 members plus the EU, as well as 14 regional and international organisations with observer status. All members are subject to reviews, as are certain jurisdictions that are not members but are considered relevant for the Global Forum’s work. The aim is to prevent countries from gaining a competitive advantage by refusing to apply international standards or to join the Global Forum. Switzerland is one of the few countries represented in both the Steering Group and the Peer Review Group. The Steering Group has 18 members, and 30 countries are represented in the Peer Review Group (PRG).

The peer review is broken down into two phases. Phase 1 involves investigation of whether or not the necessary legal and regulatory foundation exists for transparency and the exchange of information, while phase 2 looks at the effectiveness and efficiency of the exchange of information in practice. A compliance rating is awarded at the end of the peer review process once both phases have been completed.

During its plenary meeting in Berlin in October 2014, the Global Forum took stock of the progress it had made since 2009 and laid the building blocks for its future work, particularly regarding the automatic exchange of information (AEOI). It has already examined 105 states and territories and awarded 71 rat-
ings to states and territories that have completed their phase 2 review (see Figure 20). Given that a new round of reviews will commence in 2016, greater attention will be paid in 2015 to jurisdictions that have not yet completed their peer review cycle and received a rating.

In the phase 1 peer review report of 1 June 2011, the Global Forum concluded that Switzerland was non-compliant or only partially compliant with regard to certain key criteria. The Federal Council has since taken the measures necessary to implement the Global Forum’s recommendations:

- Introduction in the Tax Administrative Assistance Act of an exception regarding the prior notification of persons affected by an administrative assistance request. The revised Act was approved by Parliament and entered into force on 1 August 2014.

- Updating of a large part of the DTA network in line with the standard by means of bilateral negotiations and the signing of the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters on 15 October 2013, bringing to 93 the number of partner states and territories with which Switzerland can exchange information in a standard-compliant manner. Furthermore, following the Federal Council’s decision on 19 February 2014, a proposal for the unilateral application of the standard on the exchange of information aimed at covering the last remaining DTAs was put out for consultation on 22 October 2014 (see section 4.2.2).

- Legislative amendments regarding the identification of the holders of bearer shares within the framework of the implementation of the revised Financial Action Task Force (FATF) recommendations. On 12 December 2014, Parliament adopted the Federal Act for Implementing the Revised Recommendations of the Financial Action Task Force of 2012. It contains provisions that enable the owners of bearer shares to be identified. It should enter into force by mid-2015.

In view of the progress made, Switzerland requested authorisation on 5 June 2014 to submit a supplementary report pursuant to the Global Forum’s revised methodology. The PRG accepted Switzerland’s request on 11 July 2014. The supplementary report will present the progress made with regard to implementing the Global Forum’s recommendations. It will be discussed during the PRG’s meeting in February 2015 and, if it is approved, Switzerland will be able to move to a phase 2 review, which could be launched before the end of 2015. At the end of phase 2, Switzerland will be assigned a rating that takes into account not only the legal and regulatory framework and how the recommendations are followed, but also practical implementation and the efficiency of administrative assistance in tax matters.

By fulfilling its commitments, Switzerland can make the most of its strengths without coming under international pressure and thereby ensure the credibility, appeal and stability of the country as a business location and financial centre.

4.2.4 FATCA

The FATCA agreement between Switzerland and the United States came into force on 2 June 2014. It simplifies matters for Swiss financial institutions when implementing the unilateral US Foreign Account Tax Compliance Act (FATCA). Implementation in Switzerland is based on Model 2, which means that Swiss financial institutions disclose account details directly to the US tax authority with the consent of the clients concerned. In the absence of a declaration of consent, the United States has to request client data through administrative assistance channels. However, such requests cannot be issued until the protocol of amendment to the double taxation agreement between Switzerland and the United States has come into force.

A FATCA qualification board was created in October 2013 in order to achieve uniform practices when implementing the FATCA agreement. Leadership of the qualification board lies with SIF. The other members include the Federal Tax Administration FTA, the Federal Social Insurance Office FSIO, the Swiss Bankers Association SBA, the Swiss Pension Fund Association ASIP, the Swiss Insurance Association SIA, the Swiss Funds & Asset Management Association SFAMA, SwissHoldings, the Swiss Association of Asset Managers SAAM and SIX Group. The qualifica-
tion board promotes cooperation between the stakeholders involved. It deals with associations’ questions and businesses’ requests. The competent US authorities are consulted where necessary.

On 8 October 2014, the Federal Council gave SIF the mandate to negotiate a Model 1 FATCA agreement. Unlike Model 2, such an agreement will provide for the automatic exchange of data between the competent authorities (see figure 21).

4.2.5 UN

With Ambassador Christoph Schelling from the State Secretariat for International Financial Matters (SIF), a high-ranking Swiss expert is once again represented in the UN’s Committee of Experts on International Cooperation in Tax Matters, which was re-appointed in 2013. Among other things, the Committee is responsible for the further development of the UN’s Model Convention on Double Taxation between developing and advanced economies. Another important topic area is development cooperation and the provision of technical assistance in the tax area to developing countries. Moreover, the Committee provides a framework for the general dialogue on international collaboration in tax matters.

During its tenth meeting in Geneva in October 2014, the Committee accepted reports on the work of the various sub-committees mandated during the 2013 meeting, and issued instructions for further work or fundamental directives for existing mandates. In terms of content, the focus was on the taxation of services, the next update of the United Nations Practical Manual on Transfer Pricing and the exchange of information.

4.3 Corporate taxation

4.3.1 Business taxation dialogue with the EU

A mutual understanding between Switzerland and the EU was signed in Luxembourg on 14 October 2014. In this, the Federal Council and representatives of the 28 EU member states expressed their mutual intentions and joint principles in terms of business taxation. The signing marked the end of almost a decade of controversy between Switzerland and the EU which had sometimes put a severe strain on relations between the two partners.

The understanding does not contain any treaty obligations and merely lists principles and mutual intentions. Specifically, the Federal Council reaffirmed its intention to abolish distortionary tax regimes, particularly those that provide
for ring-fencing, i.e. the different treatment of domestic and foreign revenue. New tax measures are to be based on the international standards of the OECD. In return, the EU member states’ corresponding countermeasures should be lifted. A Swiss obligation regarding the EU’s internal Code of Conduct for business taxation was ruled out. It is the relevant principles and criteria of the OECD that matter for Switzerland.

4.3.2 Addressing base erosion and profit shifting (BEPS)

The base erosion and profit shifting (BEPS) project marks a historical turning point in terms of international tax cooperation. It aims to combat erosion of the tax base (i.e. the unreasonable reduction of taxable profit) and profit shifting to jurisdictions with low or no tax. The action plan contains 15 actions in order to address the BEPS problem in a holistic manner (see fig. 22).

All of the OECD and G20 member states, as well as some states that are members of neither the OECD nor the G20, i.e. a total of 44 countries, are participating in the BEPS project on an equal footing. The BEPS project is entirely run within the OECD, under the leadership of the Committee on Fiscal Affairs. The work is divided between different working parties and groups, which are supported by the OECD secretariat. Switzerland participates actively in all of the working parties and defends its interests in them.

The BEPS project is comprised of three successive phases which foresee the completion of various actions in September 2014, September 2015 and December 2015.

For the moment, it merely provides recommendations. However, some countries have already stated that they intend to amend their domestic legislation, while others have proposed new bills following the publication of the first outcomes of the BEPS project.

The first BEPS project outcomes, published in September 2014 and approved by the G20, concern seven of the 15 actions:

**Fig. 22**

<table>
<thead>
<tr>
<th>BEPS Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coherence</strong> Actions:</td>
</tr>
<tr>
<td>Neutralise the effects of hybrid mismatch arrangements</td>
</tr>
<tr>
<td>Strengthen CFC rules</td>
</tr>
<tr>
<td>Interest deduction limitations</td>
</tr>
<tr>
<td>Counter harmful tax practices</td>
</tr>
<tr>
<td>Solve digital economy problems</td>
</tr>
<tr>
<td>Develop a multilateral instrument</td>
</tr>
<tr>
<td><strong>Substance</strong> Actions:</td>
</tr>
<tr>
<td>Prevent treaty abuse</td>
</tr>
<tr>
<td>Prevent circumvention of permanent establishment status</td>
</tr>
<tr>
<td>Intangibles*</td>
</tr>
<tr>
<td>Risks and capital*</td>
</tr>
<tr>
<td>Other high-risk transactions*</td>
</tr>
<tr>
<td><strong>Transparency</strong> Actions:</td>
</tr>
<tr>
<td>Collect/analyse data on BEPS and actions to address it</td>
</tr>
<tr>
<td>Disclosure obligations</td>
</tr>
<tr>
<td>Re-examine transfer pricing documentation</td>
</tr>
<tr>
<td>Improve dispute resolution mechanisms</td>
</tr>
</tbody>
</table>

* Ensure that transfer pricing outcomes are in line with value creation

Implementation 2014
Implementation 2015
Address the tax challenges of the digital economy (action 1): the report noted that the digital economy cannot be distinguished from the economy itself. However, the digital economy and its business models have features that favour the risks of base erosion and profit shifting. It was decided to wait until the end of the action plan to determine whether some of the project’s other actions will be sufficient to eliminate the BEPS problems associated with the digital economy (e.g. the significant digital presence of a company in a given state without being taxed there).

Neutralise the effects of hybrid mismatch arrangements (action 2): hybrid mismatch arrangements are legal constructs that can be used to reduce the tax burden of taxpayers based on the lack of coordination between the tax legislation of the different countries concerned. Concretely, hybrid mismatch arrangements produce double deductions as well as deductions without corresponding inclusion for taxation. Such situations can arise when financial instruments (or legal entities) are classified differently for tax purposes (e.g. debt vs. equity, transparent vs. opaque entities) by two or more states.

Counter harmful tax practices more effectively, taking into account transparency and substance (action 5 – phase 1): this work is conducted within the OECD’s Forum on Harmful Tax Practices (FHTP), which dedicated three meetings to the issue in 2014. Switzerland became a member of the Forum in 2014. The action plan anticipated that the review of regimes in OECD member states would be completed by September 2014, but this was not the case. A prejudgement was avoided for regimes considered to be potentially harmful, including four Swiss regimes. Existing IP box regimes (tax regimes that allow preferential taxation for income from intangible assets) in certain member states are also being reviewed and at the time of going to press discussions were being held within the FHTP to determine under what conditions such regimes would be acceptable. Given that it was not possible to reach an agreement on the notion of economic substance in the context of IP regimes before September 2014, the completion of the review of this particular type of regime as well as other regimes was postponed. Switzerland is taking these developments into account in its ongoing corporate taxation reform. Furthermore, a framework for the spontaneous exchange of information on rulings related to the granting of preferential tax regimes has been prepared by the FHTP as part of the BEPS project. Numerous OECD member states and the G20 are applying pressure in order for the spontaneous exchange of information to be implemented quickly.

Prevent treaty abuse (action 6): the report asked states to respect a minimum standard by introducing rules in their double taxation agreements (DTAs) that will prevent the abusive use of DTAs. A certain degree of flexibility has been obtained in the choice of rules and their combination in order to satisfy the standard. For example, it will be possible to refrain from introducing purely mechanical anti-abuse rules, such as a limitation-on-benefits rule, and instead to introduce general anti-abuse rules corresponding to the relevant Swiss approach.

Ensure that transfer pricing outcomes are in line with value creation (action 8 – intangibles): given that this action is closely linked to the other transfer pricing actions, this report is only an intermediate outcome for the moment. Fundamental issues concerning the value chain, determining the transaction effectively carried out and recharacterisation possibilities still have to be addressed by September 2015.

Re-examine transfer pricing documentation (action 13): the report harmonised the transfer pricing documentation requirements for multinational enterprises. These companies are required to prepare a country-by-country report, master file and local file. The amount of information that these documents will contain has been reduced considerably. Moreover, the information will remain with the tax authorities and will not be accessible publicly.
– Develop a multilateral instrument (action 15): the report on this action was drafted by experts in public international tax law and experts in international taxation. This report aimed to determine the feasibility of a multilateral instrument that would allow existing double taxation agreements to be adapted swiftly.

The reports do not contain any detailed guidelines on implementation in domestic law. However, it is to be expected that timescale requirements will also be set as work progresses. This could put states under a certain amount of pressure to comply with the project outcomes as early as possible.

The outcomes expected in 2015 are also being followed closely. The work on controlled foreign company (CFC) rules and on interest expense deduction limitations is particularly important. Moreover, Switzerland believes that it is necessary to ensure that the various BEPS project recommendations do not create new cases of double taxation and strongly supports the developments within the scope of action 14, which aims to make dispute resolution mechanisms more effective.

4.4 Bilateral tax cooperation

4.4.1 Double taxation agreements and tax information exchange agreements

The OECD has drawn up an international standard for the exchange of tax-related information upon request (Article 26 of the OECD Model Convention) to which its member states are expected to adhere. Switzerland resolved in 2009 to fully adopt the standard. By the end of 2014, Switzerland had signed 49 double taxation agreements (DTAs) containing a provision on administrative assistance upon request in accordance with the international standard. Of these, 41 have already come into force. The opportunity was used to agree numerous improved provisions in agreements (e.g. reduction of withholding tax rates on dividends, interest and royalty payments), eliminate certain cases of discrimination and negotiate arbitration clauses, as well as to enter into new DTAs.

Underhand and unlawful flows of capital from developing countries

The term illicit financial flows as understood by the OECD refers to the transfer of illegally acquired assets, the illegal transfer of assets acquired legally or illegally, as well as the transfer of assets for illegal purposes, i.e. money laundering, tax evasion, tax avoidance, bribery and the use of abusive transfer pricing practices within groups. Switzerland has concrete measures to strive to prevent illicit financial flows. This also involves continuing to implement the FATF recommendations, the internationally recognised reference standard for combating money laundering.

In the area of taxation, the measures to counter illicit financial flows include double taxation agreements (e.g. with the developing countries Ghana, Pakistan, Uzbekistan and Peru), tax information exchange agreements (e.g. with the Seychelles) and the introduction of the automatic exchange of information. In addition, Switzerland signed the OECD/Council of Europe Convention on Mutual Administrative Assistance in Tax Matters in October 2013. This governs the exchange of information upon request, spontaneously and automatically. Nine developing countries also signed this convention in August 2014: Cameroon, Colombia, Costa Rica, Gabon, Ghana, Morocco, Nigeria, Philippines and Tunisia.

Once the convention has entered into force, Switzerland will be able to accept and process administrative assistance requests from the signatory countries. These measures increase the tax receipts of developing countries and help to strengthen Switzerland’s development cooperation.

Switzerland is prepared to adopt a standard-compliant administrative assistance provision in all of its existing DTAs, as well as include such a provision in any future agreements. The Federal Council launched the consultation procedure on the Federal Act on the Unilateral Application of the OECD Standard on the Exchange of Information (EoISA) in October 2014 (see section 4.2.2.). Overall, Switzerland currently has DTAs with 102 states.
Switzerland’s international administrative assistance in tax matters

**Administrative assistance in accordance with international standard**

**DTAs/TIEAs in force (44)**
- Australia
- Austria
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Faroe Islands
- Finland
- France
- Germany
- Greece
- Guernsey
- Hong Kong
- Hungary
- India
- Ireland
- Isle of Man
- Jersey
- Kazakhstan
- Korea
- Luxembourg
- Malta
- Mexico
- Netherlands
- Norway
- Peru
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Taiwan
- Turkey

**DTAs approved by Parliament (1)**
- Austria
- Australia
- Belgium
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Estonia
- Faroe Islands
- France
- Germany
- Greece
- Hong Kong
- Hungary
- India
- Ireland
- Isle of Man
- Ireland
- Italy
- Japan
- Jersey
- Korea
- Luxembourg
- Malta
- Mexico
- Netherlands
- Norway
- Peru
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Taiwan
- Turkey

**Signed DTAs/TIEAs or Convention on Mutual Administrative Assistance (48)**
- Albania
- Andorra
- Angola
- Argentina
- Aruba
- Azerbaijan
- Belgium
- Belize
- Bermuda
- Brazil
- Brunei Darussalam
- Cameroon
- Cayman Islands
- Chile
- Colombia
- Costa Rica
- Croatia
- Curaçao
- Cyprus
- Czech Republic
- Denmark
- Dominica
- Ecuador
- Egypt
- El Salvador
- Estonia
- Ethiopia
- Faroe Islands
- Finland
- France
- Georgia
- Germany
- Ghana
- Greece
- Grenada
- Guernsey
- Guinea
- Greece
- Guernsey
- Guinea-Bissau
- Guatemala
- Guinea
- Greenland
- Ghana
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Jordan
- Korea
- Latvia
- Lebanon
- Liechtenstein
- Lithuania
- Luxembourg
- Macao
- Macedonia
- Malaysia
- Malta
- Mauritius
- Mexico
- Mozambique
- Netherlands
- New Zealand
- Nigeria
- Norway
- Bangladesh
- Pakistan
- Panama
- Panama
- Paraguay
- Peru
- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- Taiwan
- Turkey
- Turkmenistan
- United Arab Emirates
- United Kingdom
- Ukraine
- United States
- Uzbekistan
- Venezuela
- Vietnam
- Zaire
- Zambia
- Zimbabwe

**Initialled DTAs/TIEAs (2)**
- Algeria
- Andorra
- Angola
- Antigua and Barbuda
- Argentina
- Armenia
- Benin
- Bermuda
- Brazil
- Bulgaria
- Canada
- Chile
- China
- Colombia
- Costa Rica
- Croatia
- Curaçao
- Cyprus
- Czech Republic
- Denmark
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Estonia
- Ethiopia
- Falkland Islands
- Faroe Islands
- Finland
- France
- Georgia
- Germany
- Ghana
- Greece
- Grenada
- Guernsey
- Guinea
- Guinea-Bissau
- Guatemala
- Guinea
- Greenland
- Ghana
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Jordan
- Korea
- Latvia
- Lebanon
- Liechtenstein
- Lithuania
- Luxembourg
- Macao
- Macedonia
- Malaysia
- Malta
- Mauritius
- Mexico
- Mozambique
- Netherlands
- New Zealand
- Nigeria
- Norway
- Pakistan
- Panama
- Panama
- Paraguay
- Peru
- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- Taiwan
- Turkey
- Turkmenistan
- United Arab Emirates
- United Kingdom
- Ukraine
- United States
- Uzbekistan
- Venezuela
- Vietnam
- Zaire
- Zambia
- Zimbabwe

**Initialled DTAs (2)**
- Algeria
- Andorra
- Angola
- Antigua and Barbuda
- Argentina
- Armenia
- Benin
- Bermuda
- Brazil
- Bulgaria
- Canada
- Chile
- China
- Colombia
- Costa Rica
- Croatia
- Curaçao
- Cyprus
- Czech Republic
- Denmark
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Estonia
- Ethiopia
- Falkland Islands
- Faroe Islands
- Finland
- France
- Georgia
- Germany
- Ghana
- Greece
- Grenada
- Guernsey
- Guinea
- Guinea-Bissau
- Guatemala
- Guinea
- Greenland
- Ghana
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Jordan
- Korea
- Latvia
- Lebanon
- Liechtenstein
- Lithuania
- Luxembourg
- Macao
- Macedonia
- Malaysia
- Malta
- Mauritius
- Mexico
- Mozambique
- Netherlands
- New Zealand
- Nigeria
- Norway
- Pakistan
- Panama
- Panama
- Paraguay
- Peru
- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- Taiwan
- Turkey
- Turkmenistan
- United Arab Emirates
- United Kingdom
- Ukraine
- United States
- Uzbekistan
- Venezuela
- Vietnam
- Zaire
- Zambia
- Zimbabwe

**No administrative assistance**
- Albania
- Andorra
- Angola
- Antigua and Barbuda
- Argentina
- Armenia
- Benin
- Bermuda
- Brazil
- Bulgaria
- Canada
- Chile
- China
- Colombia
- Costa Rica
- Croatia
- Curaçao
- Cyprus
- Czech Republic
- Denmark
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Estonia
- Ethiopia
- Falkland Islands
- Faroe Islands
- Finland
- France
- Georgia
- Germany
- Ghana
- Greece
- Grenada
- Guernsey
- Guinea
- Guinea-Bissau
- Guatemala
- Guinea
- Greenland
- Ghana
- Hungary
- India
- Indonesia
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Jordan
- Korea
- Latvia
- Lebanon
- Liechtenstein
- Lithuania
- Luxembourg
- Macao
- Macedonia
- Malaysia
- Malta
- Mauritius
- Mexico
- Mozambique
- Netherlands
- New Zealand
- Nigeria
- Norway
- Pakistan
- Panama
- Panama
- Paraguay
- Peru
- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Singapore
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Switzerland
- Taiwan
- Turkey
- Turkmenistan
- United Arab Emirates
- United Kingdom
- Ukraine
- United States
- Uzbekistan
- Venezuela
- Vietnam
- Zaire
- Zambia
- Zimbabwe

1) Double taxation agreement 2) Tax information exchange agreements (TIEA) 3) Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters
Since the Federal Council’s decision in April 2012 to enter into administrative assistance agreements in accordance with the international standard not only in the form of DTAs but also via tax information exchange agreements (TIEAs), Switzerland has signed seven TIEAs. Three of these – with Jersey, Guernsey and the Isle of Man – entered into force on 14 October 2014 and will be applicable from 1 January 2015. Switzerland signed TIEAs with Andorra, Greenland, San Marino and the Seychelles in 2014. A TIEA was initialled with both Belize and Grenada at the end of 2014. These countries had asked Switzerland to commence corresponding negotiations.

In principle, double taxation agreements (DTAs) and tax information exchange agreements (TIEAs) are equivalent instruments for concluding an administrative assistance clause in accordance with the international standard. Unlike DTAs, which are aimed primarily at avoiding double taxation and therefore contain other material provisions, TIEAs merely govern the exchange of information upon request. TIEA negotiations are under way with various states and territories, including with developing countries, where such agreements also aim to increase tax receipts. Such agreements thus help to strengthen Switzerland’s development cooperation.

4.4.2 Bilateral tax dossiers (United States, France, Italy, India)

France

The new agreement of 11 July 2013 between France and Switzerland on the avoidance of double taxation in the area of inheritance tax was rejected by Parliament. The existing agreement of 31 December 1953 on the avoidance of double taxation in the area of inheritance tax was denounced by France effective from 31 December 2014. Consequently, protection against double taxation in this area will cease from 1 January 2015.

Within the scope of the bilateral tax dialogue initiated on 5 November 2013, there have been regular exchanges on all of the tax issues of mutual interest, i.e. administrative assistance, market access, expenditure-based taxation, etc. This dialogue will help to stabilise tax relations between the two countries and resolve the outstanding issues in a pragmatic manner. For example, it has been possible to clarify the practicalities of applying the agreement of 11 April 1983 regarding the taxation of cross-border commuters and technical discussions have commenced on access to the financial services market.

Italy

Based on a mandate adopted by the Federal Council on 29 August 2012, Switzerland is conducting negotiations with Italy on settling the following areas:

– Regularisation of persons domiciled in Italy with assets held at banks in Switzerland and introduction of a solution for taxing future income
– Market access for Swiss financial service providers in Italy
– Revision of the double taxation agreement and inclusion of a provision on the exchange of information in accordance with the international standard
– Revision of the taxation of cross-border commuters
– Removal of Switzerland from Italy’s black list in the area of taxation
– Examination of the customs regime regarding Campione d’Italia.

The negotiations have made significant progress and it should be possible for an agreement to be signed by the end of February 2015.

United States

Based on the joint statement signed on 29 August 2013 and the US Department of Justice’s unilateral US programme that entered into force on the same day, Swiss banks that assumed they may have violated US law (category 2) had to register with the Department of Justice (DOJ) by 31 December 2013 and deliver the first set of information by 30 April 2014. Many Swiss banks have seized the opportunity for the regularisation of the past.

The DOJ extended various deadlines for the US programme in a publication on 5 June 2014. The deadline extensions included the following: category 2 banks’ demonstration deadline for taxed accounts was extended to 31 July 2014, and the deadline for clients participating in the IRS offshore voluntary disclosure programme
was extended to 15 September 2014. Furthermore, category 3 and 4 banks’ deadline for requesting a non-target letter from the US authorities was extended to 31 December 2014.

On 19 May 2014, Credit Suisse was the first of the institutions classified as a category 1 bank to conclude an agreement with the DOJ to resolve the past. Other banks in this category are still in negotiations.

Switzerland is in regular contact with the DOJ, working towards ensuring that Swiss banks are treated fairly and are not disadvantaged relative to US or other banks. Such contact also makes it possible to call for compliance with the Swiss legal system.

India
India’s finance minister, Arun Jaitley, took up office on 26 May 2014. He has joined the government at a time when India is stepping up its fight against tax evasion and fraud, with the creation of a Special Investigation Team (SIT) entrusted with shedding light on the assets held abroad by Indian residents.

Relations with Switzerland remain tense due to the refusal to exchange information when a request is based on data obtained illegally. Despite the difficult environment, the door for dialogue nevertheless remains open. A meeting was thus held in Bern on 15 October 2014 on Switzerland’s initiative. The meeting took place in a positive atmosphere and ended with a joint statement identifying the basis for solutions concerning the bilateral issues under discussion.

### US programme – classification of banks

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
<th>Category 4</th>
</tr>
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<tbody>
<tr>
<td>US criminal investigation in progress</td>
<td>US tax law violated</td>
<td>US tax law not violated</td>
<td>Banks whose business is local</td>
</tr>
<tr>
<td>Comprehensive data on US business</td>
<td>Comprehensive data on US business</td>
<td>Data on US assets under management</td>
<td>No information</td>
</tr>
<tr>
<td>Individual penalties</td>
<td>Individual penalties on a flat-rate basis</td>
<td>No penalties</td>
<td>No penalties</td>
</tr>
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Fig. 24
Review and outlook

Switzerland made important progress on the implementation of its financial market policy in 2014.

Principles Switzerland considers important, such as data protection, the principle of speciality and transparency of trusts, were integrated into the new global standard for the automatic exchange of information. Furthermore, all major financial centres committed themselves to the new standard. The Federal Department of Finance commenced the preparatory work for legal implementation. Switzerland was finally able to sign an agreement with the EU on business taxation, thus bringing an end to the years of controversy. At the same time, Switzerland is actively involved in drawing up new global principles on corporate taxation as a member of the OECD. Companies operating internationally should be taxed primarily where value creation occurs; unfair profit shifting to countries with low or no tax should be countered. Switzerland submitted corresponding proposals for consultation under the third series of corporate tax reforms so that it can continue to be a leading business location with internationally compatible tax regulations in the future.

The network of standard-compliant double taxation agreements was further increased and the administrative assistance provisions were fine-tuned in line with the international standard. This allowed Switzerland to move out of the focus of criticism within the Global Forum and to submit a supplementary report with a view to being admitted to phase 2 of the peer review. Similarly, the dispute with the United States on previously untaxed assets is in the process of being resolved. Switzerland made every effort in the United States to ensure that Swiss banks would be treated fairly and equally and that Swiss institutions would not be treated worse than other foreign or US banks.

All untaxed assets from the United Kingdom and Austria were regularised in 2014 as a result of the 2013 withholding tax agreements, and the situation with Germany regarding previously untaxed assets has largely abated. Talks have been initiated with France, while those with Italy have made considerable headway.

The bill on the implementation of the new international requirements on combating money laundering and terrorist financing was approved by Parliament. The Federal Council presented its internationally compliant proposals for greater client protection, increased transparency in over-the-counter trading and prudential requirements in the form of three new financial market acts. Talks with China concerning the establishment of a renminbi hub for transactions in the Chinese currency in Switzerland were also pursued further.

Switzerland was able to put its expertise in financial stability issues to good use within the Financial Stability Board and the International Monetary Fund. Moreover, the broad-based group of experts led by Aymo Brunetti presented their recommendations for the further development of the Federal Council’s financial market policy at the end of 2014. These included proposals for improving market access and capital requirements for systemically important financial institutions (too big to fail).

By international standards, Switzerland’s relatively favourable economic development in this difficult phase of transition shows that we are on the right path. We are committed to a competitive, secure and stable financial centre with internationally accepted framework conditions. There are still many more steps to be taken along the path we have chosen.

In 2015, we must press on with the preliminary work on introducing the automatic exchange of information in tax matters without delay. This also includes finding acceptable solutions for the regularisation of previously untaxed assets with countries such as France and Italy. When faced with protectionist tendencies, it is also important to analyse market access issues in depth both bilaterally and multilaterally and to repeatedly insist on it. In 2015, the Federal Council will also
take stock of the too big to fail measures it has taken to date and highlight any need for action. The OECD’s further work on corporate taxation will be of key importance for Switzerland as a business location. The final report is due at the end of 2015.

In order to make its financial market policy a success, it is extremely important for Switzerland to inform and consult with the sectors concerned, the cantons and political circles in good time. This may often lead to heated debates, but this typically Swiss way of reaching a consensus ultimately ensures good, viable solutions.