



Factsheet

Blockchain and cryptoassets in the financial sector: Switzerland's pioneering role on the international stage

Key messages

- **Switzerland** is one of the **most advanced** financial centres in the field of **fintech** and blockchain. The country believes that it is essential for its legal framework to facilitate innovation so that the potential of new technologies can be unlocked.
- Switzerland's **innovation-friendly framework conditions** and **legal certainty** have allowed a dynamic **Swiss blockchain ecosystem** to evolve. This ecosystem encompasses all applications and services related to blockchain technology, not just cryptocurrencies such as bitcoin. Blockchain enables complex processes to be made more transparent, consistent and efficient, for example in post-trading and in the custody of securities. The data generated by the internet of things (IoT) devices (sensors) can also open up new possibilities by linking them to blockchains, for example in logistics.
- Switzerland attaches great importance to the **integrity** of its financial centre. The **Anti-Money Laundering Act** applies to any financial intermediary activity involving cryptoassets. A Swiss financial intermediary that holds or helps to transfer **cryptocurrencies** for third parties is subject to the **same obligations** as if the currency used were fiat money, e.g. Swiss francs.
- In a world where **cybercrime** is rapidly increasing, this approach reduces the risk of ransom payments being transferred to wallets managed by Swiss financial intermediaries.
- **Switzerland** is a **pioneer** in this area too. Many **other countries have not yet implemented** these anti-money laundering standards for cryptocurrencies, thereby increasing the risks at the international level.
- The Federal Council is also monitoring developments with regard to cryptoassets that could have an impact on **financial stability**. To date, **no material risks** have been identified, but these **analyses** are regularly repeated.
- Switzerland is also actively involved in international work on the taxation of cryptoassets (**taxation, automatic exchange of information**). The Federal Tax Administration regularly publishes information on Swiss practice in this area.



What are cryptoassets?

- **Cryptoassets** is a collective term for digital assets that are usually recorded on a blockchain. These include not only the so-called cryptocurrencies that are often the focus of attention and have no backing (e.g. bitcoin) or are linked to a fiat currency in order to reduce their volatility (so-called stablecoins), but also so-called asset tokens that represent rights (e.g. shares) or physical assets (e.g. wine).
- The **blockchain** and **distributed ledger technology** behind cryptoassets harbours great potential. It allows the encrypted, decentralised storage and transfer of values. This can create an end-to-end digital value chain, which promises innovative applications and greater efficiency, not least in the area of asset tokens.
- The global **market capitalisation** of all cryptoassets totalled over USD 2 trillion in 2021. This corresponds to around 1% of all financial assets or 0.5% of all financial and real economic assets.¹ The largest cryptoassets by market capitalisation are the cryptocurrencies bitcoin (around USD 1 trillion) and Ethereum (around USD 500 billion), although the value of such cryptocurrencies is subject to extremely large fluctuations that can hardly be predicted.²

What are the implications for Switzerland?

1. Consolidating its status as an innovative financial centre

- The **Swiss financial centre** is one of the world's most important centres and has a strong international focus. It is also one of the most advanced in the field of **fintech** and blockchain. For Switzerland, it is essential that the legal framework enables **innovation** and that the potential of new technologies can be realised.
- Among other things, the innovation-friendly **framework conditions** and the **legal certainty** created by the authorities (clarification of legal issues through guidelines, creation of regulatory frameworks) have allowed the emergence of a dynamic **Swiss blockchain ecosystem** made up of developers, service providers and advisers. Switzerland does not regulate the technology, but rather, where necessary, the activities carried out with the help of the technology (technology neutrality principle).
- The establishment of the **Ethereum Foundation** in the so-called **Crypto Valley** in Zug was likewise decisive for the development of the ecosystem. Switzerland was also open to providing a serious regulatory framework for innovative projects as part of the **Diem project** (formerly **Libra**), which originally wanted to be located in Switzerland. The close collaboration with foreign supervisory authorities before the project was even ready for approval was widely acknowledged.
- Like all financial centres, Switzerland faces **risks** of abuse and **vulnerabilities**, including in relation to cryptoassets. Switzerland is determined to minimise the risks posed by cryptoassets in terms of money laundering and terrorist financing, financial stability, taxation, and investor and consumer protection. Since their emergence, it has been committed to controlling and reducing these risks, adapting **national law** where necessary, and actively participating in the development of **international standards**.
- In 2021, the **Federal Act on the Adaptation of Federal Law to Developments in Distributed Electronic Register Technology (DLT)** and the associated blanket ordinance came into force. Among other things, this legislation improves the conditions for companies using blockchain in Switzerland (introduction of security rights registered on a blockchain), increases legal certainty in the event of bankruptcy (segregation of cryptoassets), creates a new licence category for DLT/blockchain-based trading systems within the framework of

¹ FSB Financial Innovation Network (FIN), "Assessment of risks to financial stability from crypto-assets", September 2021, accessed on 6 December 2021

² <https://coinmarketcap.com>, accessed on 6 December 2021

financial market supervision, and provides a proportionate response to the risks identified in the area of money laundering and terrorist financing.

- **FINMA** supervises the implementation of financial market regulation by financial intermediaries. Since 2019, it has published, among other things, a practical guide for authorisation enquiries and a position statement on stablecoins. The legal certainty provided by the above-mentioned regulations also enabled it to grant a banking licence to financial service providers specialising in DLT/blockchain in 2019, and to approve the first Swiss cryptofund in 2021.
- The Federal Council is closely monitoring the latest developments in blockchain, such as **non-fungible tokens** (NFTs) and **decentralised finance** (DeFi), which have not been the subject of an international consensus on how they should be regulated to date.

2. Safeguarding the integrity of the financial centre by taking proactive action against crime

- The Federal Council attaches great importance to preserving the **integrity** and good reputation of the Swiss financial centre. The **Anti-Money Laundering Act** applies to financial intermediary activities involving cryptoassets. A Swiss financial intermediary that holds or helps to transfer cryptocurrencies for third parties is therefore subject to the **same obligations** as if the currency used were fiat money, e.g. Swiss francs. FINMA also published guidance on payments on the blockchain.
- Switzerland thus goes beyond the international standards of the Financial Action Task Force (**FATF**). It was one of the first two countries to be assessed in this area, and with good results. In a globalised world where **cybercrime** is on the rise, this reduces the risk of ransom payments being transferred to wallets managed by Swiss financial intermediaries.
- Many **other countries have not yet implemented** these standards, which increases the risk of money laundering at the international level. The vulnerabilities associated with transactions conducted **without a financial intermediary** or through intermediaries located in **jurisdictions without legislation comparable** to Switzerland's (e.g. via cryptocurrency exchange platforms located abroad) can be minimised solely through **international cooperation**.
- **Switzerland actively advocates** the rapid global implementation of the FATF standards in order to **avoid legal loopholes** and havens for criminals.

3. Continuing to ensure the stability of the financial centre

- The Federal Council is monitoring developments in the area of cryptoassets that could have an impact on **financial stability**. Due to the global dimension of these projects, international cooperation is essential. For this reason, Switzerland actively participates in the work of the relevant **international bodies**, such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the Committee on Payments and Market Infrastructures (CPMI), which are continuing to develop international standards for cryptoassets.
- To date, **no material risk** to financial stability has been identified by the FSB. However, developments happen quickly and could have consequences in the future. Consequently, these analyses are **regularly repeated**.

4. Clear taxation of cryptoassets

- Developments in the financial markets require international tax assistance to be adapted in order to ensure global **tax transparency**. Currently, the OECD is working on an extension of the global standard for the international **automatic exchange of information** on financial

accounts (AEOI standard) to include cryptoassets and providers of services with cryptoassets. Switzerland is actively involved in this work.

- Switzerland is also actively involved in international work on the **taxation of cryptoassets**. Domestically, the Federal Council acknowledged an FDF report on a possible need to adapt tax law to the developments in DLT/blockchain in 2020. The report concluded that there is no need to change the existing legal framework. The Federal Tax Administration regularly publishes information on the practice followed in the area of cryptoassets based on current tax law.