The Federal Council's policy on the financial centre from the point of view of competitiveness

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Berne, January 17, 2013, press point
The spoken text shall prevail.

The year 2012 was marked by endless discussions on taxation:

- First came the difficult finalisation of the negotiations on the agreements with Germany and Great Britain covering the introduction of a final tax at source.
- Another agreement followed with Austria, which in this case was negotiated very rapidly.
- Then we saw long political (even partisan) debates, first in Switzerland and then in Germany, on the ratification of these agreements.
- As we know, these debates resulted in the coming into force of the agreements with Great Britain and Austria, but in the definitive rejection of the one with Germany.
- Tax negotiations also concerned the United States, a country with which Switzerland initialled, along with other countries, an intergovernmental agreement on the implementation of the FATCA.
- Finally, in Switzerland itself, an extensive discussion on the *'Weissgeldstrategie'* (white money strategy) was launched in February last year. After various developments, this discussion resulted a month ago in a decision by the Federal Council intended to define the principles applicable for the extension to the fiscal area of the obligations of due diligence imposed on financial intermediaries.
- A bill will soon be submitted to a consultation procedure, along with the qualification of certain tax crimes as predicate offences for money laundering.

After this listing, from which I have omitted numerous details, I would like to make two remarks.

The first also concerns taxation: all the debates that have held us in suspense over recent months have disregarded the question that is undoubtedly the most important for Switzerland's reputation in this area – namely the 'peer review' initiated three years ago by the Global Forum on Transparency and Exchange of Information for Tax Purposes, an intergovernmental organisation close to the OECD.

Due to problems of rather secondary importance linked to its internal legislation, Switzerland has the sad honour of being among the very last countries that have not been allowed to complete the process of the peer review. To borrow a metaphor from cycling, our country thus runs the risk of being dropped by the pack and finishing the race outside the time limit - and to the total indifference of the political world. And yet such a situation could have serious consequences for our country in terms of reputation. I find it disturbing that we have so much difficulty in putting our priorities in the right order.

My second remark touches on the focus of my presentation: all these tax debates are important, but they lead us to neglect priorities that should guide our policy on the financial centre. I am thinking in particular of our competitiveness.

Three years ago, the Federal Council defined four strategic issues for Switzerland's policy with respect to the financial centre: competitiveness, market access, resistance to crises and integrity.

While the two latter strategic issues have been the object of much concern (first of all with the implementation of the law on the banks qualified as 'too big to fail' » and then with the tax debates just mentioned, the two first topics – namely competitiveness and market access – have been largely neglected.

These two issues cannot be separated from each other. In fact, it's a waste of time being competitive if one cannot access one's clients.

The question of market access is undoubtedly the principal preoccupation that we will face over the next few years.

Overall the domestic banking market is healthy: providing businesses with credit doesn't pose major problems, although this is not the private bankers' job. Our banking sector is playing its role. However, important as it may be, it's not the domestic market that represents the heart of our financial centre. Over half of the added value created by the banks in Switzerland results from asset management activities for private or institutional[1] clients. These activities are essentially cross-border. They directly occupy tens of thousands of people and indirectly sustain tens of thousands of others in a wide variety of sectors.

And yet we observe that under the effects of the crisis our neighbouring countries are closing in on themselves. This is the case, for example, with the European Union, with its numerous directives targeting goals as noble as the protection of investors or the proper functioning of the markets. But these directives also often have less worthy motives: putting up barriers to market access for external operators.

Unlike goods trading which, through the WTO, can count on a relatively solid multilateral framework, trade in services is still open to all sorts of protectionist deviances.

This is why it is both urgent and important for Switzerland to be concerned with guaranteeing access to foreign markets, especially the European Union, for its financial sector.

In this context, I would like to salute the fact that the FINMA has recently concluded cooperation agreements with the European securities regulation authorities with respect to the monitoring of alternative investment funds, hedge funds, private equity funds and real estate funds. It is to be hoped that this mutual recognition will be extended to other sectors, and this each time that the need arises.

But one is obliged to acknowledge that in the long run only a properly formulated agreement will provide the Swiss financial centre with the legal security it needs in its relations with the European Union. We know that the road towards a bilateral agreement on financial services will be long and strewn with obstacles. We also know that one must not put the cart before the horse, and that nothing can be done before the institutional issue between Switzerland and the European Union is settled. But if each stays in his corner for fear of addressing the taboo

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1 Namely 53.5%, according to an analysis by the Boston Consulting Group (including 43.3% for private banking and 10.2% for asset management).

subject of our relations with the EU, we will not manage to solve in time this vital problem for the Swiss financial centre of access to its principal external market.

If this problem is not resolved in time, what will happen? It's quite easy to predict: we will see an increase in delocalisations, and our financial centre will shrink progressively. History has shown repeatedly that once an activity leaves a country, it does not return. The operators organise themselves differently.

What is at stake? We must be aware it is not the future of Swiss banks as such: they will serve their clients from the place that will suit best. The issue is the future of jobs in Switzerland and their implications for the country as a whole. In this respect, the example of Swiss private bankers is eloquent. Over the last three years, in other words the period during which the Federal Council's new strategy has been put in place, our group of banks has continued to see a slight increase in its employment in Switzerland, where we have created 234 jobs (+5%). But at the same time our banks have generated 444 abroad, representing a growth of 22%.

In the long term, the problem of market access is of much greater strategic importance than the tax issues that have been the subject of debate over the last twelve months.

As for the competitiveness, in the broad sense, of our financial centre, there is good news and less good news.

The good news is the general state in which our country finds itself, by international comparison, on the macroeconomic level. Switzerland continues to display, in terms of indebtedness, financial stability, unemployment, external accounts and so on, statistics that any other European country might envy. This general performance undoubtedly benefits the financial centre. But it must not be seen as a consequence of the policy pursued in this sector.

For in this domain our country still needs to make significant progress. The list of issues that figures in the report on the financial centre published in December by the Federal Council is more like a 'to-do-list' for technocrats than the description of a visionary strategy. Once again one has the impression that we have an unfortunate propensity for getting lost in details.

The development of a strategic vision is going to be assigned to a group of high-level experts chaired by Prof. Aymo Brunetti. This method, which involves calling on a task force, can give good results. One has seen this in particular when it came to drafting the legislation designed to protect Switzerland against the systemic risks related to 'too big to fail' banks.

But then the task was easier, as the objective was better defined and there were fewer actors involved. It was simpler to tighten the requirements placed on the two big banks with respect to capitalisation, liquidities and governance than it will be to implement a strategy designed to ensure the positive development of the whole financial centre.

The financial centre will have to assume its responsibilities and assist the experts in their work. In this spirit, I would like to give you – and, through you, to this new 'task force' – the preliminary analysis of the private bankers.

We have three priorities:

- The first brings us back to the taxation issues already referred to. It is absolutely imperative that Switzerland regularizes the past. For the countries that have agreed or will agree to put in place taxation agreements in line with the British or Austrian models, the way is clear. For the others, a solution must be found rapidly that does not lead clients who have placed their trust in Swiss banks to go and seek refuge in other countries. We share the point of view expressed by the Chairman of the Swiss Bankers Association, who favours dealing first with Switzerland's two other large neighbours, namely Italy and France.

- Our second priority concerns the indispensable strengthening of the competitiveness of the Swiss financial centre through unilateral measures. In this domain, one must cite in particular measures on internal taxation. This could be achieved through an intelligent and visionary reform of the withholding tax and through the abolition of stamp duties.
    - With respect to withholding tax, in view of the measures planned to ensure that foreign investors are tax compliant, a safeguard tax would lose its raison d'être as far as they are concerned.
    - With respect to stamp duties, some will tell me that certain EU countries are going to introduce a tax on financial transactions. I will reply that firstly, this tax is lower than our own stamp duty and that secondly, the most dynamic European financial centres have refused this new tax. When we set objectives with respect to competitiveness, we must align ourselves with the best!
- The third priority is market access about which I have already spoken. As we have seen it is dependent on numerous other unpredictable political developments on which we don't need to comment, but it is our duty to say that it is a crucial problem in the long term.

The clarification of these three priorities must be swift. Nothing is worse for a business than uncertainty. Nothing is worse for the employees of an industry than not knowing how to direct their activity. The mission of a business is to go forward, to create added value. For this it needs to know which way it is facing.

Allow me before concluding to anticipate two questions which you are surely burning to ask: what is our point of view on the final withholding tax, and what do we think about the automatic exchange of information?

On this subject our response is simple:

- yes, we are for the final withholding tax;
- no, we are not in favour of the automatic exchange of information.

But we would like to stress above all that these are technical questions, not a strategic vision. When one sets objectives, it is dangerous to format one's thinking in function of purely technical preoccupations.

What matters above all is the vision of what we want, not the means by which we achieve it.

Thank you for your attention.