

Chairman's address, Swiss Bankers Day, 6 September 2011

Successes, challenges and opportunities

Patrick Odier, Chairman of the Swiss Bankers Association

Ladies and Gentlemen,

Two years ago I was elected Chairman of the Swiss Bankers Association. During these two years, we have made some very important strategic decisions with regard to the future of the Swiss financial centre. When I assumed my role as Chairman, the final withholding tax was criticised quite heavily. Now that a positive solution has been found with Germany and the United Kingdom, suddenly many claim to be the "founders" of the 2015 Financial Centre Strategy. I would of course like to honour these agreements in my speech. However, and in view of recent developments, I will make a few comments on the cross-border issue with the US. I would then like to bring your attention to a few other issues which required much work on part of the Swiss Bankers Association last year. The focus of my remarks, however, will be on the future. I will explain to you what will be required to remain successful even in light of the new conditions.

Agreements with Germany and the United Kingdom: fair, balanced and in the interests of clients

Overall, the ground breaking tax agreements with Germany and the United Kingdom were well received in Switzerland. Unfortunately, it is a Swiss trait to always focus on the negative aspects. Instead of being half full, the glass is often half empty. Our thinking is characterised by anxiety about the future rather than by a spirit of optimism, as demonstrated once more in the many comments on the tax agreements. For this reason, I would like to restate the following things clear:

1. The tax agreements have to be judged in their entirety. It is part of the process that compromises have to be made if one wants to reach an agreement.
2. The objectives of the agreements for the Swiss financial centre were achieved:
 - Clients have been offered a fair solution to regularise their tax liabilities. Financial privacy has been preserved.
 - The banks have lived up to their duty of fiduciary care vis-à-vis their clients and can continue to exploit growth potential in both countries thanks to improved market access. The purchase and utilisation of stolen data belongs to the past as bank employees can no longer be punished for the misconduct of their clients.
 - Germany will receive direct access to the past and future tax base that it is due free of any charges and expenses.
 - Switzerland has solved a major bilateral issue permanently.

In short: The tax agreements allow banks in Switzerland to put the past behind them and seize new growth opportunities. Clearly, this achievement comes with a price tag in the form of implementation costs of around CHF 500 million, guarantee payments and system control measures. A price tag, however, which is appropriate and fair. I would like to take this opportunity here to say thank you once again to the Swiss delegation of negotiators under the careful leadership of State Secretary Ambühl for their work in this regard. Similar agreements with other European countries have to be quickly concluded.

Cross-border business with the US: solution within the framework of existing laws

Unfortunately, the bilateral treaty on UBS did not mark a final end to the issue. The US is acting out of a position of power. The approach adopted by the US public prosecutors is too tough and the past business conduct of some bankers might have been too careless. The shadows of the past are closing in on us again. I cannot pass legal judgement on the individual cases. What I do know, however, is that a globally positioned financial centre such as Switzerland cannot be successful without conducting business with the US. I can understand Swiss politicians who are either complaining about the hard-line stance of the US or criticising the banks once more for their past conduct. The fact is, however, that the banking sector cannot solve the problem on its own and indicted Swiss banks would be very damaging for our economy. A solution needs to be found that meets the following criteria:

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- The solution must be globally applicable, be definitive and correspond to existing Swiss law. To this end, our country and government must put up a united front and represent our interests at all levels.
- A second bilateral treaty has to be avoided and the US needs to respect this. We have two double taxation agreements with the US which cover such cases. A solution must be found within the agreement's framework. The US should take the tax agreements with Germany and the United Kingdom as an example. Bilateral problems between friendly nations should be solved by mutual agreement.
- The banks need to answer for any illegal business practices or misconduct by their employees in the US. However, no Swiss laws shall be breached in the process.

We need to make these framework conditions understood to discussion partners abroad. With strong arguments we will certainly be met with understanding by the pragmatic US.

Further important challenges and concrete results

In addition to these developments, the Swiss Bankers Association is currently working on other strategic topics. The dedication to these challenges was and remains very high. But progress has been made and successes have been recorded.

In the following I would like to take a short look at four example issues.

1. A very important issue over the last 12 months was Too-Big-To-Fail. We managed, above all, to raise our concerns during the legislation process and represented the interests of the financial centre at all levels. One success was, for instance, that the amendment was considerably strengthened in the specific proposal. Our consistency of approach and our argument of international competitiveness were effective. We also strongly championed the issues of a capital rebate for banks which are organised in such a way that they can be easily wound up in the case of an improbable failure.
2. Another large regulation project is the Alternative Investment Funds Manager (AIFM) Directive. It regulates the management, custody and sale of collective capital investments which are not covered under the UCITS Directive, the existing EU law which covered "normal" investment funds. We were concerned here by the danger that we would only have restricted market access. We expressed this fear many times in both public and private discussions and worked with third countries on a pragmatic implementation of this directive. With success: The directive in its final version states that portfolio and/or risk

management of investment funds in the EU may be delegated to a manager based in Switzerland provided the manager is supervised by FINMA.

3. FATCA, this huge piece of legislation from the US, that will cost much more than it would ever bring in in additional tax revenues, is a further example of sustained and insistent lobbying. The Bankers Association was one of the first organisations which pointed to problems in its implementation and raised concerns with US authorities. Other countries have followed our example. Now, the US has postponed its entry into force by one year. The subject matter is particularly challenging, though I am confident that the last word has not yet been had with respect to the law's operation.
4. For a few months now, we have been in intense negotiations with FINMA on strengthening our guidelines on mortgage-backed loans. We aim to ensure here that competition remains healthy on the Swiss property market. It is satisfying that our concerns have been met with understanding and that the guidelines will not set restrictive quantitative limits in future. Over the last few weeks, the Federal Council has surprisingly returned to the idea of quantitative targets in discussions which have centred on measures intended to deal with the continued appreciation of the Swiss franc. In the interest of customers and a properly functioning market, we remain committed to a liberal solution.

Growth on a strong basis

The Swiss financial centre is based on four core values: stability, universality, responsibility and excellence. These values enable Swiss banking to achieve the required level of differentiation, allowing it to acquire a unique positioning amongst its international competitors. Stability shows that the financial centre is heavily characterised by Swiss values. Political stability, legal certainty and currency stability are important factors, particularly outside Switzerland. Universality highlights the global portfolio of services offered by the banks in Switzerland. It is universal banks rather than specialists that secure the success of the financial centre. Other distinguishing features include a high level of diversification, openness and interdependence. We operate both on a global and local level. Responsibility describes the approach of the players in our financial centre. We comply with the regulations both in Switzerland and abroad. Our clients' interests are at the centre of everything we do, and – as mentioned before – the right to the protection of privacy remains a key pillar. We also take our responsibility to society, other players in the economy and the environment seriously. Excellence stands for our professional, high-quality and innovative

services, which should be geared even more strongly towards achieving a good performance for our clients. The key to this are well-trained, expert and talented staff at all levels. We need to build on this position of strength. Switzerland and its financial centre should not be overly modest. Our future strategic development must correspond to our core values.

In the last few years we have not only solved the problems of the past but have also given consideration to the future. The 2015 Financial Centre Strategy with its four pillars – focus on taxed assets, regularisation of the past, protection of privacy and growth – is the foundation of our thinking. In the case of the first two pillars, we have taken an important step forward with the tax agreements I mentioned earlier. But what about the other two pillars?

Banking secrecy is a democratic asset that safeguards financial privacy, whereby assets are protected and not hidden. This urgently required protection continues to exist as before for taxed assets. Especially in a time in which the private sphere is being increasingly repressed and where uncertainty and instability prevail, safeguarding financial privacy is a key element of many foreign clients. The Swiss Bankers Association will in future continue to resist all efforts to restrict this legitimate right of every citizen around the globe. For us, this also means that we need to very closely examine all further amendments to the global OECD standard. Neither Orwellian thinking nor fishing expeditions are in the interests of free citizens. Our criticisms of the overly hasty and uncoordinated approach to the freezing of dictators' assets in connection with the turmoil in the Middle East must also be seen in this light. The approach caused concern among our customers from this region. Luckily, our arguments fell on open ears. Legislation which will bring clarity and legal certainty is in the pipeline.

The fourth pillar additional growth, is an urgent task. In order to further strengthen our leading competitive position, both legal and tax conditions need to be improved on an ongoing basis. At the same time we have to identify new growth areas and develop them. In a first step, individual restraints on growth, such as stamp duty, need to be abolished. In the past, Switzerland has held a leading position with its pragmatic legislation and regulation. The fight against money laundering or – as already mentioned - the stringent rules on dictators' assets are a good examples of this as well as the recent legislation on the too-big-to-fail issue. If we want to maintain this position, careful attention must be given to ensuring that existing and new measures at home correspond to international standards. In this regard, Switzerland may be more aggressive in its actions at an official level. In a globalised world, our politicians

and authorities must in future work harder to ensure that we can set global standards with our rules. To achieve this, we need to further improve our networks and participate proactively in international organisations.

Collaboration with our regulator, Finma, must be intensified. Of course, our opinions differ on individual issues. Anything else wouldn't be natural. But our overall aim is the same: we want a successful and competitive financial centre which enjoys a good reputation and provides top services and products to its national and international customers. Joint representation of our interests abroad and close cooperation at home are key requirements for this.

To generate growth in Switzerland, favourable conditions are required above all in potentially attractive business areas such as asset management. In this business area, the legal and regulatory environment must be adapted in such a way that Switzerland can accept new international regulations (e.g. AIFM/UCITS) while also being able to offer new high-margin products from Switzerland, for example, in the areas of hedge funds or private equity.

Asset management also offers important synergies with traditional private banking, an area in which our expertise is unrivalled. Switzerland remains THE hub for the investment of assets. It needs to increasingly become THE gateway for wealthy individuals from Asia, Latin America and the Middle East who are looking for investment opportunities.

Today, the so-called emerging markets actually contribute more to global growth than the developed countries. This is leading to a notable increase in prosperity in these countries.

More and more people have the opportunity to advance their careers and develop personally. Switzerland – the world market leader for cross-border private banking with century-old tradition and expertise – thus finds itself in a unique position to play a leading role in the management of this newly created wealth.

In order to be successful in the mentioned future business areas, a large pool of talent of international class in all areas of the value chain is essential. The financial centre and individual banks, which years ago created an important basis for this with the Swiss Finance Institute (SFI), must invest even more money in education and training. In this regard, the various qualification and certification procedures for bank employees that are already in place at the banks should also be accredited centrally, provided they meet minimum requirements to be defined jointly.

Ladies and gentleman, as I have shown, we can look to the future with optimism. So what is to be done in addition to ensure necessary amendments run smoothly and possible growth can be generated?

1. The financial centre must present itself better. And this both in Switzerland and abroad. The 100-year anniversary next year will offer a stage for this. We shouldn't always underplay our strengths. Discretion in the interests of our customers is good, though frankness and self-confidence in meeting challenges is even better. We must be self-confident and not arrogant, work in partnership and not egoistically, act offensively and not defensively.
2. The success of Switzerland is also based on its small size, flexibility, consensus politics and a healthy measure of pragmatism. Maximum demands, enduring party politics or ideologicalisation have no room in our balanced political and economic system and will not strengthen our nation in a globally competitive environment, but will weaken it. We must deal with the problems of the future and not always return to the conflicts of the past.

Ladies and Gentlemen, I would like to conclude my speech with a summary:

- The bilateral tax agreements with Germany and the United Kingdom are a milestone for the Swiss financial centre and provide the conditions for growth and stability.
- The cross-border problem with the US can be solved. The US must understand, however, that Swiss laws must be adhered to.
- The Swiss Bankers Association will continue its constant work for concrete and good solutions for the various challenges facing our financial centre.
- Banking secrecy protects assets but does not hide them. This protection remains important.
- The Swiss financial centre can develop and expand further business areas from a position of strength.

Finally, I would like to say a big thank you to all the staff who have worked hard and with great skill to raise the concerns of the financial centre. They deserve applause from all of us.