Historically the world’s largest international wealth management center, Switzerland provides both investors and companies seeking funding with attractive investment and financing opportunities. This is in large part thanks to its modern financial market infrastructure and its competitive and sound regulatory environment, with standards that meet or exceed international norms. These features, together with the country’s stable political climate, make Switzerland a prime location to raise capital, invest money, and list equity and debt instruments.

Key Figures
The importance of the role Switzerland’s financial sector plays both domestically and internationally is clearly recognized:

- According to the Global Financial Centres Index ranking, published in March 2018, both Zurich (16th place globally, 2nd place in Europe) and Geneva (26th place globally, 6th place in Europe) rank among the leading global financial centers. In addition, Switzerland continues to be the world’s leading international wealth management center according to Deloitte’s most recent Wealth Management Centre Ranking (published in 2015), with USD 2 trillion assets under management at the end of 2014.

- Figures published in April 2018 by the Swiss State Secretariat for International Financial Matters illustrate the continued importance of Switzerland’s financial sector to the Swiss economy. For the year 2017, the Swiss financial sector’s share in Switzerland’s gross domestic product (GDP) was 9.1%, contributing an added value (Wertschöpfung) of approximately CHF 61 billion.

- According to the Swiss Bankers Association’s Banking Barometer 2017, Swiss banks managed total assets of CHF 6,650.8 billion as of the end of 2016, representing a year-over-year growth of 1.3%. With an approximate market share of 24% of cross-border assets managed globally in 2016, Switzerland remains the global leader for cross-border private banking.

- Statistics published by the Swiss Structured Products Association (SSPA) demonstrate that investment in structured products in Switzerland remains very strong. As of the end of 2017, the turnover for Swiss structured products of the major SSPA members amounted to CHF 275 billion, representing a year-over-year growth of 21%. Furthermore, according to the Swiss National Bank, as of the end of February 2018, approximately CHF 200 billion were invested in structured products held in Swiss bank custody accounts.

- The SIX Swiss Exchange, the principal securities trading platform in Switzerland, has established itself internationally as a premier listing and trading platform for debt and equity securities, structured products and other derivatives. In 2017, a total of 51,402,173 trades were conducted on the SIX Swiss Exchange, with trading turnover across all securities amounting to CHF 1,345.9 billion.

In addition to the strength of Switzerland’s financial sector, it is also known for its innovative quality. Switzerland regularly receives top ranking internationally for competitiveness and innovation. The World Economic Forum’s Global Competitiveness Report 2017–2018, the Global Innovation Index 2017 and the European Innovation Union Scoreboard 2017 all put Switzerland in first place. Switzerland was also ranked second in the IMD World Competitiveness Ranking 2017.

Furthermore, the Swiss financial sector benefits from the overall stability of Switzerland as a whole. As a testament to its stable political climate, Switzerland was ranked the third least fragile state in the 2018 Fragile States Index published by The Fund for Peace. In addition, KPMG’s 2017 Change Readiness Index, which is designed to measure how effectively a country’s government, private and public enterprises, people and wider civil society anticipate, prepare for, manage, and respond to change and cultivate opportunity, put Switzerland in first place.

Regulatory Environment: A Frontrunner that Meets or Exceeds International Standards
In recent years, Switzerland has proven itself to be a frontrunner in the implementation of measures to address the causes and effects of the 2008 global financial crisis. The regulatory initiatives in response to the crisis aim to make the Swiss financial system more resilient and to continuously modernize and align Switzerland’s regulations with international standards.

The first and primary focus was on the regulation of Swiss systemically relevant banks (i.e., Credit Suisse, UBS, Zürcher Kantonalbank, Raiffeisen Group and PostFinance). Switzerland’s so-called too-big-to-fail (TBTF) package, which has been fully implemented since 2011, consisted of measures such as stronger capitalization standards, stricter liquidity requirements, improved risk diversification and organizational measures designed to ensure that a bank’s systemically important functions (such as payment transactions) can continue to be performed in the event of a threat of insolvency. As a result of the implementation of its TBTF package, Switzerland finds itself today with a differentiated regulatory landscape, paired with significantly higher supervisory requirements for Swiss systemically relevant banks, which are reassessed at regular intervals.

More recently, in July 2016, Switzerland was the first to implement the Total Loss-Absorbing Capacity (TLAC) requirements of the Financial Stability Board, which apply to all internationally active Swiss systemically relevant banks, subject to phase-in and grandfathering provisions until January 1, 2020.

At the same time, Switzerland has eased certain restrictions for FinTech firms as part of its commitment to foster innovation in the financial sector. In particular, both the Swiss financial regulator, Swiss Financial Market Supervisory Authority FINMA, and the Swiss federal tax administration have issued statements clarifying the treatment of cryptocurrency and issues related thereto in order to ensure that market participants can operate with confidence. At the end of 2017, Switzerland had a total of 220 FinTech companies in Switzerland,
3. The Swiss Financial Center: Combining Innovation and Stability - A Regulatory Perspective

with the city of Zug having earned a reputation as "Crypto Valley". Switzerland ranked second after the U.S. in funds generated from initial coin offerings to investors in 2017.

**Ongoing Regulatory Reforms**

In order to keep up with market developments, as well as to align Swiss investor protection standards with newly developed standards implemented by peer jurisdictions, such as the EU’s Markets in Financial Instruments Directive (MiFID II) and European Market Infrastructure Regulation (EMIR) and the U.S.’s Dodd-Frank Act, regulatory changes relating to the provision of financial services in or into Switzerland were recently initiated. Ensuring the compatibility or “equivalency” of Swiss regulation with international standards is particularly important to preserve market access for the cross-border securities business of Swiss market participants, in particular market access in the EU.

As a result, Switzerland is currently in the middle of a comprehensive overhaul of its financial market law system that will in the future rest on four pillars: supervision, financial market infrastructure, financial institutions and financial services. While the supervisory pillar has largely been implemented for some time, the three other pillars either have just been or are about to be introduced. Crucial for the Swiss financial sector are the new regulations on financial market infrastructures and financial services.

**Financial Market Infrastructures**

On January 1, 2016, the Swiss Federal Financial Market Infrastructure Act (FMIA) entered into force. The FMIA established a regulatory framework for financial market infrastructures that is for the most part in line with EMIR and the Dodd-Frank Act. In addition to modernizing the regulation of trading venues while maintaining the concept of self-regulation for trading and admission rules of trading venues, the FMIA introduces comprehensive regulation regarding trading of OTC derivatives. This includes obligations for clearing via central counterparties, reporting to a trade repository, and risk mitigation, which are largely modelled on EMIR. Unlike under EMIR, but in line with the Dodd-Frank Act, for reasons of proportionality, certain exemptions are available to counterparties that fall below a certain threshold of OTC derivatives trades. While the FMIA provides the legal basis for requiring derivatives transactions to be conducted via a stock exchange or another trading venue, the regulations have not yet been put in place.

**Financial Services**

The new Swiss Federal Financial Services Act (FinSA) will impose several new requirements on financial service providers: It contains a set of regulatory conduct rules, regulates cross-border financial services, and introduces a registration requirement for individual client advisors. Furthermore, it will introduce a comprehensive Swiss prospectus regime for the first time.

Introduced by the Swiss Federal Council in November 2015, the draft FinSA is in the final stage of parliamentary debate, with the expectation that it will be approved by the Swiss Parliament in June 2018 and enter into effect either in 2019 or in the beginning of 2020.

The regulatory conduct rules that will be introduced by the FinSA for all financial service providers will include the duty to provide information to clients on financial services rendered (also covering any economic relations with third parties), to assess the suitability or appropriateness of the financial service rendered or product provided, and to prepare and make available documentation with respect to, among other things, their financial services. Compared to existing rules and regulations, the FinSA will to a much lesser extent differentiate between financial service providers that have a physical presence in Switzerland and foreign financial service providers merely providing their services to Swiss clients on a cross-border basis. As soon as any Swiss or foreign person or entity provides financial services to clients in Switzerland, such activity will be subject to the regulations of the FinSA, including the regulatory rules of conduct at the point of sale. As a consequence, foreign financial service providers will be required either to establish a subsidiary or branch in Switzerland or to have their client advisors registered in Switzerland in a newly introduced register for client advisors. The Swiss Federal Council can exempt client advisors of foreign financial service providers subject to prudential supervision from the registration requirement if they render their services exclusively to professional or institutional clients, but can make the exemption subject to a reciprocity requirement.

With respect to the offering of financial instruments, the FinSA will introduce a number of fundamental changes to the Swiss prospectus regime. These changes most notably include a new requirement for ex ante approval of prospectuses, the codification of private placement exemptions in line with international standards and current Swiss market practice, the imposition of a duty to publish a prospectus in the case of secondary public offerings, and a new requirement to prepare a basic information document in the case of financial instruments (except for shares and bonds) that are offered to private clients. The details of this new regime will be set forth in an implementing ordinance that has yet to be published.

The new prospectus regime set out in the FinSA is modelled after the EU’s Prospectus Directive, while at the same time leaving sufficient room to preserve the basis for a highly competitive market. For instance, the FinSA’s prospectus approval requirement will only need to be met post-issuance (rather than pre-offering) for designated debt instruments, provided certain requirements are met. By preserving this particular advantage of the existing listing prospectus approval process in the Swiss debt capital markets, the FinSA will ensure that there continues to be very attractive time-to-market conditions for issuers publicly offering or listing debt instruments in Switzerland, something that distinguishes the Swiss public debt capital market from other jurisdictions.

The introduction of the basic information document is inspired by the EU’s newly implemented PRIIPs regulation. While it is expected that the format and content requirements applicable to the basic information document under the FinSA will largely follow the corresponding requirements applicable to the key information document under the PRIIPs regulation, there is also the hope that Swiss pragmatism will prevail, with such requirements being implemented in a more flexible and less onerous manner.

**Outlook**

With its regulatory reforms addressing the causes and effects of the global financial crisis, Switzerland has been a frontrunner internationally and significantly contributed to the strengthening of the resilience of the international financial system. The implementation of new regulations on financial market infrastructures and financial services that meet international standards reinforces Switzerland’s position as a leading financial center and contributes to its competitiveness in international financial markets.

About the authors:

Dr. René Bösch is a Partner at Homburger AG in Zurich. He is a member of the Chapter Board Doing Business in USA of the Swiss-American Chamber of Commerce.

Lee Saladino is Counsel at Homburger AG in Zurich.