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White paper on asset management in Switzerland

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Foreword

Banking services in Switzerland are primarily associated with private banking and wealth management. In contrast, asset management, which for many banks and financial services companies is a core activity, has tended to stay more on the sidelines. And yet the importance of asset management for the Swiss financial centre cannot be overestimated! The purpose of this white paper is to put forward some ideas that can help Switzerland develop into a globally recognised centre for asset management.

This white paper was formulated by a working group made up of representatives of the Swiss Bankers Association (SBA), Swiss Funds Association (SFA) and representatives of various banks and institutional asset managers. The working group put together a list of areas in which action is needed, along with noting where there are weaknesses and defining the steps required to create the right conditions for asset management in Switzerland. The white paper is directed towards all entities involved in the Swiss financial centre: banks, insurance companies, fund managers, wealth managers, the business media, as well as political and supervisory officials whose support is essential to expand asset management in Switzerland. The goals that we have set are ambitious:

Asset management in Switzerland is an important mainstay of the Swiss financial sector. Internationally, Swiss asset management is to stand for the highest level of reliability, independence and quality and to be known and recognized for these characteristics throughout the world.



Executive Summary

This white paper presents a strategy for boosting asset management in Switzerland. The report was prepared by a group of experts consisting of representatives from the Swiss Bankers Association (SBA) and the Swiss Funds Association (SFA). The goal was to formulate a joint basis to continue looking into the issues affecting asset management. The Executive Boards of the SBA and the SFA have approved the white paper. It will thus serve as an internal and external communication tool on the topic of asset management. This report is also valuable as the starting off point for discussions among wider interest groups, so that as many views as possible can be taken into consideration for developing asset management. The SBA and SFA have placed the various measures proposed here into an overall strategic context as they relate to a range of strategies across the entire Swiss financial centre. In addition, the measures we have proposed often require a broad consensus among political and supervisory authorities for their implementation.

Boosting asset management strengthens Swiss financial centre.

Switzerland occupies a leading global position in the area of private banking. However, Switzerland is viewed first and foremost as a wealth management location. By contrast, outsiders rarely see Switzerland's asset management expertise as a unique selling point. Raising the profile of the asset management sector will strengthen the Swiss financial centre while also offering the opportunity to supplement and offset the shrinkage in some business areas of private banking and investment banking with new business activities. This would help diversify the Swiss financial services industry while also making it more robust in the face of structural changes.

Asset management is important for the Swiss economy. By carefully and successfully investing the assets of private households, the nation's retirement system and insurance companies, asset management creates jobs and added value.

Asset managers are major providers of services and products for private and retail banking. They use the same infrastructure (trading, stock exchanges) and have similar requirements with respect to market access in other countries. We need to capture these synergies.

The success of an asset management strategy must basically be measured by the profitable, long-term growth of the assets under management. To measure this success benchmarks must be developed. In contrast to the traditional lending or insurance business, asset management has very little systemic or reputation risk because it is not involved in balance sheet transactions. This is one reason why the asset management industry needs comparatively little capital.

1 Introduction

Targeted measures to strengthen asset management.

The working group believes that targeted measures are needed to increase the appeal of the Swiss financial centre in general and of asset management in Switzerland in particular, although some preconditions to do so are already in place. These measures must be implemented as soon as possible, taking into account the views of all affected market participants. Some of these measures have already been included in the partial revision of the Swiss Federal Act on Collective Investment Schemes (CISA).

The following vision forms the basis of this paper:

Asset management in Switzerland is an important mainstay of the Swiss financial sector. Internationally, Swiss asset management is to stand for the highest level of reliability, independence and quality and to be known and recognized for these characteristics throughout the world.

Switzerland is to become a leading global location for asset management. For all investor segments Swiss financial institutions offer professional asset management and advisory services, as well as client-specific financial products that encompass active, passive and alternative investment methods.

The term asset management is defined as follows:

Asset management is a specialized focus on investment methods and processes with the goal of generating sustainable added value for clients. These services are provided by qualified, experienced and prudentially surveyed asset managers and are offered to both institutional and private investors and service providers. The services are provided on the basis of asset management mandates or through structures such as investment funds, foundations or investment companies.

Asset management is an important part of wealth management in general. In contrast to wealth management, however, the focus of asset management is not on client service. Moreover, asset management does not include aspects such as distribution, brokerage and custody. Rather, it is a separate service that acts on behalf of the investor.

The primary goals of asset management are as follows:

- As a separate business activity within the financial sector, the aim of asset management is to generate a high level of added value for clients thanks to high standards, professionalism and in-depth expertise.
- Clients can count on the quality and the reliability of Swiss asset managers thanks to strong competition and an efficient and transparent as well as internationally recognized and effective regulation based on Swiss law and professional standards of conduct.
- Asset managers act in the interest of their clients. They take appropriate organisational steps to avoid conflicts of interest.
- Swiss asset managers offer their services both in Switzerland and internationally for clients in Switzerland and abroad. To be able to offer these services regulations on market access must not be restrictive. Switzerland's regulatory standards are known and accepted internationally. The Swiss supervisory authority handles requests quickly and transparently. To ensure legal certainty with respect to its duties, the Swiss supervisory authority is in regular contact with public officials in other countries to set and maintain agreements for the international recognition of Swiss standards as well as to ensure market access for Swiss asset managers and asset management service providers.

- The high level of Swiss asset management standards is the basis for the appeal that Switzerland has for foreign asset managers in the country or their branches.

2 Success factors for boosting the appeal of asset management in Switzerland

Eight key factors

We will look more closely at these key factors:

1. Asset management as a brand
2. Standards for asset management
3. Adequate supervision
4. Market access
5. The right instruments and structures for asset management
6. Excellent tax environment (including various levies) for investors
7. Infrastructure
8. Education

We have developed a vision for each of these key factors. In addition, we have identified the weak points along with measures for addressing these weaknesses.

2.1 Asset management as a brand

Vision

Switzerland's asset management industry is seen as a separate brand, which raises its appeal for both Swiss and international providers as a place to do business, and as a place to invest for Swiss and international clients (private and institutional clients).

Switzerland is to become a leading global location for asset management. Its calling card will include quality, reliability, solid expertise, innovation and unique operating conditions. The asset management business in Switzerland offers high-quality investment solutions for all investment segments, along with financial products in all investment categories, including both alternative investments and traditional investment strategies.

The basis for doing business successfully internationally is the strong home market in Switzerland. Switzerland is to become the go-to partner for institutional investors and private clients in the areas of active portfolio management and index-based solutions. As a separate business activity, asset management is to provide a high level of added value for clients. In addition, thanks to the low systemic and reputation risks of asset management, it will make a major contribution to the Swiss financial centre.

The qualities that Switzerland has to offer are to be perceived as asset management specific, both in Switzerland and internationally. Strengthening this industry opens up the opportunity for shrinking business areas in the Swiss financial industry to gain some momentum, which will give greater diversification to the financial centre and enhance it as a place to do business.

Asset management: no strong development in Switzerland

Weaknesses

The Swiss financial centre plays a key role internationally. However, Switzerland is viewed first and foremost as a private banking and wealth management location. In contrast, asset management is rarely seen as a separate area of business.

Asset management in Switzerland has not developed as much in recent years as it has in London or New York. Some of the reasons for the lack of brand awareness are as follows:

- Asset management in Switzerland is traditionally a sub-activity of the universal banks. This helps explain why it was less established and less focused than it was with pure asset managers, who were able to concentrate on their core functions.
- The legal framework is currently not very competitive. This is true with regard to the appeal of collective investment vehicles (such as SICAV) and also because there is no goal-directed supervisory authority that can partner with the industry to promote growth.
- Subsidiary services such as the administration of investment funds or white labelling are too little developed or too little known.
- The tax framework is not attractive enough in order to market it internationally.

In addition to these “external” reasons, the Swiss asset management industry itself has not promoted some areas enough. For example,

- Theory and practice have not been brought together. Compared with industries such as pharma and machinery, the asset management industry has not placed enough importance of synergies through research with universities.
- The various industry associations have not coordinated their efforts to boost a brand for the Swiss financial centre.
- There is little joint action in Switzerland or internationally to promote the Swiss financial centre as a place to do business.
- The asset management brand is not specific enough and does not have much of a profile.
- Banks have not given a prominent position to asset management in their promotional campaigns.
- The other topics that we cover in this report, in particular market access from Switzerland to other countries, infrastructure, training, etc., form the basis for a successful branding. They are the core of the asset management value proposition in Switzerland for clients and providers.

Measures to address weaknesses

The key point is to ensure that the asset management brand is clearly defined and that the brand promises services that can actually be delivered. The value proposition must be attractive enough for clients and providers so that clients want to have their assets managed in Switzerland and providers want to locate their “factory” – their asset management business – in Switzerland. We have seen with Anglo-Saxon hedge funds that such transfers can happen quickly.

The following measures are to be taken into consideration:

- A clear definition of asset management and the value proposition for clients and providers.
- Joint action by all partners (SBA, SFA, banks, FINMA, etc.)
- Asset management specialists joining boards in other countries.
- Promoting cooperation with research institutes.
- Setting up a working group of branding specialists to define some key measures. This can also be accomplished by working more closely with existing industry associations. The founding of a separate asset management association has no priority for

reasons of efficiency; instead, the energy of the existing associations should be bundled.

- Market access is a key issue. That's the only way to take advantage of Switzerland's specific advantages internationally, such as multilingualism, central location within Europe, etc.
- There needs to be a better explanation of issues such as education, infrastructure, regulatory and fiscal framework, etc., which should gradually be included in the value proposition.
- The banks themselves need to undertake more activities to boost the asset management brand.
- Targeted marketing to promote Switzerland as a location for asset management.

2.2

Standards for asset management

Leader in asset management quality

Vision

Switzerland is a leader in asset management when it comes to quality. The country uses accepted standards, such as governance, best practices and a code of ethics, making it compatible with the regulatory requirements in other countries (MiFID and others).

Weaknesses

The following weak points must be addressed:

- Compared with other countries Switzerland's compliance culture is somewhat underdeveloped.
- Processes and best practices are not sufficiently regulated.
- Not enough specialised supervisory officials considering the complexity of the material, which can cause the control processes to be somewhat lacking.

Measures to address weaknesses

- Greater cooperation with the supervisory authorities in other countries in the areas of governance, best practices and a code of ethics.
- Increased training of supervisory officials in these areas (see also "Role of supervisory authorities").
- Together with universities ensure that there are educational opportunities in asset management (see also "Education").

Below we present a proposal on standards for the following areas:

- Basic requirements for asset managers
- Organisation
- Capital
- Requirements for persons working in asset management
- Protection of investor interests
- Information, reporting and performance
- Portfolio management
- Risk management requirements
- Audit and supervision

Basic requirements for asset managers

Propositions for standards for asset management

The most important goals are to have a functioning investor protection system, a high level of quality for asset management and a competitive environment. Competition should function to promote innovation and quality. All requirements should be related to these goals. These requirements also form the basis for the obligations to act in good faith,

to exercise due diligence and to provide information. They have already been prescribed by law for the most part. Other requirements can also be included to comply with international standards.

For all persons who execute investments for clients or provide clients with advisory services, the basic requirements are to be regulated in one law along with ordinances. Complying with minimum requirements with respect to transaction size and investment volumes can be made subject to supervision.

Organisation

The asset manager shall undertake organisational measures to ensure a proper conduct of business. These measures shall include a clear assignment of responsibility for investments, best execution, valuation, investment controlling, compliance and risk management.

The qualifications for a position and the person hired for it, along with the requirements for the segregation of tasks and independent assessments, are based on the amount of assets managed and the complexity and liquidity of the investments.

These tasks can be delegated to specialised providers who have the necessary independence and who can ensure compliance with regulations.

The asset manager regulates the flow of information and the execution of transactions in such a manner that there are neither advantages nor disadvantages for individual clients.

The targets and compensation that the asset manager defines for employees must be as close as possible to the interests of the investors. Specifically, the asset manager must not offer incentives that could collide with the interests of investors, such as excessive trading and/or excessive risks.

The delegation of some tasks is allowed, provided that the asset manager still maintains supervision and authority. The delegating of tasks does not reduce the asset manager's liability. The requirements to monitor the delegated tasks can be eased if the entity that has been delegated is subject to the same regulations.

Capital

The capital of an asset manager is to be based on the amount of assets managed as well as the diversity, complexity and risks of the investments made. There is an upper limit on the capital.

It can be supplemented or replaced if there is adequate insurance.

Requirements for persons working in asset management

The persons working in asset management must have the proper education and/or experience for their job. The supervisory authority maintains a public list of persons who are qualified to work in managing an asset management business, as well as in portfolio management, risk management or compliance. Anyone who meets the defined requirements has the right to be accepted to work in the asset management industry. There is a specific legal path for removing a person who has been approved for a specific task.

Any person whose position at an asset manager grants them access to information must not execute a transaction on their own behalf that could conflict with the interests of investors. Asset managers shall issue regulations in writing regarding permitted transactions. These regulations shall ensure that the interests of investors are taken into account.

All persons who work for an asset manager are to refrain from any acts that could impact market integrity or a transparent pricing that is in line with the market, or that could cause an unacceptable manipulation of market prices.

Protection of investor interests

The asset manager can be authorised by investors to directly safeguard their interests (membership and creditor rights) at annual meetings, creditor meetings, registration of legal claims or participation in class-action lawsuits. The asset manager is to be compensated for this.

The asset manager shall inform his investors how the interests are to be safeguarded or have been safeguarded.

Information, reporting and performance

The asset manager shall provide periodic reports that show investors the performance that has been achieved.

The reporting shall comply with global standards, such as Global Investment Performance Standards (GIPS). In particular, the costs will be specifically and transparently shown.

The same rules shall apply for potential investors as for existing investors. In particular, performance figures that are calculated using past data (such as backtesting) are to be clearly indicated.

All fees charged by the asset manager are to be clearly and completely indicated.

The asset manager shall disclose for investors in a public report important information on the asset manager's organisation, capital, balance sheet, income state, assets managed, services provided, delegated activities, fees, etc.

Portfolio management

Within the framework of contractual duties, the asset manager carries out his activities freely and independently.

The asset manager may not be bound by any exclusivity obligations.

In investing the assets that he manages, the asset manager shall ensure that investments are in line with the investment character and restrictions agreed to in the asset management agreement.

Risk management requirements

The asset manager shall adequately inform investors in writing about the risks assumed before an agreement is signed, in particular about any unusual risks arising from the intended investments or investment methods.

Before purchasing investments the asset manager shall check that they conform to the investments that were intended, based on the targets and risks agreed to with the investors.

The asset manager shall regularly review whether the actual risks are in line with the agreed and intended risks, especially as regards cluster and liquidity risks.

Audit and supervision

Compliance with the requirements shall be verified by an auditor that is subject to supervision or by the supervisory authority itself.

All persons who have control functions shall have the possibility to escalate directly to the auditor or the supervisory authority if the internal possibilities have been exhausted.

Key condition: a competent and credible supervisory authority

Vision

The Swiss financial centre has a competent, credible supervisory authority that has a unit dedicated to asset management. This unit ensures a level playing field with respect to supervision for the various market participants in the asset management industry. The focus is on checking whether an asset manager is fit and proper, which helps contribute to the good reputation of asset management in Switzerland.

Weaknesses

The group of experts has identified the following weak points that need to be addressed:

- Asset management is not seen by the law as a separate industry to be regulated. Instead, asset management is covered by regulations such as CISA, banking regulations, and the supervision of pension funds and the insurance industry, although there are some gaps that need to be filled.
- The FINMA organisation does not reflect asset management as an independent activity.
- The supervision is seen as being focused too much on investor protection, which contradicts the remit stipulated in FINMAG to promote competition.
- The increasing complexity of asset management and the lack of focus on and specialisation in asset management are putting a greater burden on supervisory officials, which in turn is leading to delays in handling issues.
- The supervisory authority is having difficulty in recruiting specialists at all levels. Compared to other countries the Swiss supervisory authority has fewer resources, which means it faces regular delays in handling important issues.
- The approval and ongoing control process is primarily based on the work done by private-sector auditing companies. The incentive system at these private auditors and the lack of clear guidelines for supervision make the control system more expensive and slow it down.
- Asset consultants and similar groups that have a major influence on the investment activities of institutional investors in particular will remain unregulated even after the latest recommendations, despite there being a lot of potential for abuse (conflicts of interest).
- A lack of cooperation and insufficient dialogue between the supervisory authority and industry representatives lead to misunderstandings and confrontations that could be avoided.

Measures to address weaknesses

- Separate legal regulations are needed for asset management, regardless of whether it involves a bank, investment fund management company, insurance company, pension fund or an asset management company run as an independent operation.
- Regulation of all asset managers, though with differences depending on size, risk profile and business model.
- Government and FINMA meet with the industry to discuss how to set up a framework together.
- Formation of a special FINMA unit “Asset management/Asset manager”.
- Build up personnel resources with asset management specialists who have the requisite training and education; provide them with salaries in line with the market and the necessary authority (resources can be saved in other areas, such as not requiring product approval for collective capital investment for qualified investors).
- Adopt the best practices used in major financial centres for the supervision of asset management. A critical rethinking of the way in which asset management is to be specifically monitored.

- Development of an asset management risk profile and a system of penalties for various types of violations, with the necessary checks and balances.
- Transparent decision-making process based on clear rules.
- Consolidated supervision, but one that duly and pragmatically takes into consideration the lack of international standards for asset managers. In particular, the subsidiaries of Swiss asset management groups should not be subjected to double regulation if they are already under an equivalent regulatory system abroad.
- Greater cooperation internationally with respect to defining the mutual recognition of supervisory activities and the exchange of knowledge among supervisory authorities as a priority of foreign trade.
- Make it standard practice to include industry associations early on in drafting directives and circulars on the activity of supervision.

2.4

Market access

Reciprocal market access

Vision

Swiss asset managers are guaranteed access to international markets. The same holds true for foreign asset managers who want to enter the Swiss market, thereby guaranteeing the principle of reciprocity.

Weaknesses

The following weak points must be addressed:

- The approval process for both Swiss and foreign providers is for the most part opaque and laborious.
- A lack of reciprocity leads to a competitive disadvantage for Swiss asset managers abroad.
- An insufficient infrastructure puts up obstacles for foreign providers when they enter the Swiss market and prevents the formation of broad-based clusters.
- There is in part a lack of mutual recognition among supervisory authorities in the asset management sector.
- There is disagreement within the industry whether priority should be given to EU market access or to broad offshore market access; most support a strategy that pursues both. There is not much support for a position that focuses exclusively on non-EU markets.
- Market access for asset managers often is not seen as a freedom to provide services; instead, it is often linked to the product. A difference between market access for asset management as a service and market access for products (such as investment funds) is seldom made.
- EU market access is inadequate for Swiss asset managers, or at times not even guaranteed. There are obvious weak points for the investment fund industry in particular. It is therefore important to implement the following points:
 - EU passport for fund management companies and asset managers of collective investment schemes as per CISA;
 - EU passport for Swiss (EU-compatible) securities funds as per CISA;
 - EU passport for all Switzerland-domiciled asset managers (AIFM) of so-called alternative investment funds (AIF) as per AIFM guidelines for management and marketing of their AIF;
 - Swiss AIF are to be placed on equal footing with EU AIF as per the AIFM guidelines recommendation, regardless of their legal form.

Measures to address weaknesses:

- Targeted improvements in the infrastructure for foreign providers that want to enter the Swiss market (such as logistics, administrative processes, access to specialists, etc.)
- Measures that lead to mutual recognition for supervisory authorities (reciprocity) (see also “Role of supervisory authorities”).
- Ensure that regulations in Switzerland are internationally compatible, competitive, transparent and adequate.
- Relevant laws in Switzerland are quickly and efficiently adapted to new requirements (transparent processes that also involve the relevant market players).
- Clear, transparent rules for foreign asset management providers that want to come to Switzerland.
- In general, it should be remembered that free trade agreements in the financial sector are often only a required condition, but in individual cases agreements with the individual (local) supervisory authorities are needed.
- In contrast to Switzerland, asset management in most countries is regulated by law and subject to supervision. In recent years the EU has issued new regulations. In order to negotiate market access a Swiss solution must be comparable (a consolidated supervision must be established, similar to the one in use in the banking and insurance industry). Equal access to the Swiss market as a reciprocal right must be granted in the negotiations. Thus mutual recognition must form the basis of the negotiations.
- Market access for the asset manager must not be linked to individual products (such as investment funds) or product categories (such as life insurance) or client segments (qualified versus non-qualified investors), but must be seen within the context of the freedom to provide services.
- The public agencies involved (SIF, SECO, EDA) should establish a legal and contractual foundation, together with the supervisory authority, in order to ensure reciprocal market access for asset management and the products it offers, also for new markets such as Hong Kong.

2.5

The right instruments and structures for asset management

Competitive structures and internationally attractive instruments

Vision

The Swiss asset management market has numerous structures and instruments that have been developed and put in practice over a long period of time. The goal of an attractive cross-border location for asset management is to offer internationally competitive instruments that are treated by the supervisory authority (approval process, etc.) in a way that is comparable with the authority abroad; in other words, the local situation is taken into consideration, but the regulations are not more restrictive and in justified cases are applied selectively. Since the environment is always changing and other locations also want to be competitive, it is also necessary to continually monitor the instruments and to ensure that the approval process for them is lean, efficient and adequate.

Collective investments

CISA makes a difference between open and closed collective investment schemes. Open collective investment schemes are contractual investment funds (FCP). It is also possible to set up investment companies with variable capital (SICAV). A limited partnership for collective investments was introduced for closed capital investments, based on the model found in the English-speaking world (limited partnership).

Weaknesses of collective investment schemes

The following weak points must be addressed:

- For the purposes of supervision, there should be clear requirements for persons and instruments in the sense of an “operating license”.
- The very restrictive use of so-called single-investor funds does not necessarily serve the goal of investor protection.
- There are areas where the practices of the Swiss supervisory authority are not equivalent to practices abroad.
- Existing instruments in Switzerland have some tax disadvantages.
- A constructive attitude that would be beneficial for the location is sometimes lacking when new instruments are introduced.
- The Swiss supervisory authority is often not familiar with asset management and the vehicles and structures that asset management uses within and outside Switzerland.

Measures to address weaknesses

- Review and adjustments to the conditions for approval for new instruments.
- Bring existing practices for current instruments in line with the conditions in other countries.
- Exploit the potential for improvement through a regular exchange with approval and supervisory authorities in the area of asset management.
- Introduction of objective benchmarking for instruments and supervision for the purpose of discovering weaknesses and for establishing the basis for further discussion.
- In addition to the instruments that will be used internationally, there are also local instruments that are tailored to very specific needs. In this regard we would like to mention in particular investment foundations take into consideration the special investment needs and restrictions of pension funds. Since in this case pension funds and investment foundations are subject to the same supervisory authority, cooperation is easier, although not a given.
- It is not necessary for all instruments to be monitored by the same public authority. The goal should be that investment foundations are subject to comparable standards, and that there is constructive dialogue among the supervisory authorities.
- In addition to collective investment schemes, the practical application of asset management often means that for more exotic investment themes foreign legal structures such as common law must be relied on. This often involves greater problems and restrictions and does not look good for an established financial centre. The expense in terms of time and money in this case is often very high, and it can even lead to some disadvantages for a location. There needs to be more clarity regarding the use of foreign instruments and the promoting of an asset manager’s own alternative vehicles.

2.6

Optimal tax environment for investors

Vision

Tax environment needs to be adapted.

Any taxes and duties on instruments that distort competitiveness in the Swiss asset management market are to be reviewed and adapted to international standards.

Existing advantages should be kept whenever possible. In principle, taxes are levied on investors, not on products. Indirect taxes, and in particular withholding taxes, should be avoided or done away with altogether.

Weaknesses

The following weak points must be addressed:

- Tax disadvantages for investment funds under corporate law (SICAF, SICAV); in other words, a tax on products due to regulations in the fiscal code.
- Indirect taxes (stamp duty and withholding tax) cause a competitive disadvantage.

It is recognized that the stamp duty and the withholding tax reduce the appeal of the Swiss financial centre for investors and for asset management in general. The stamp duty represents a loss for investors, regardless of whether it is applied to new issues or to turnover. As for the withholding tax, both private and institutional investors have the right to receive a total or partial refund. For foreign investors a full or partial refund depends on the type of double taxation agreement, if any is in place. If only a partial refund is possible, the investor faces additional costs compared with the foreign markets against which Switzerland competes. Moreover, each refund also involves administrative expenses, while the amount to be credited must be temporarily blocked at the Swiss Federal Tax Authority. If there is no double taxation agreement, no refund is possible. The burden of the 35% tax rate on interest and dividends in this case is final.

Measures to address weaknesses

- Review and adjust the principle behind the withholding tax.
- Review the tax burden on existing and new instruments so Switzerland is not placed at a competitive disadvantage internationally.
- One possibility for addressing the tax disadvantage of Swiss investment funds would be to replace the withholding tax with a paying agent tax.
- A general tax regulation should ensure that one of the taxes that is accepted by the Swiss Federal Tax Administration for foreign collective investment schemes is also mandatory for Swiss investments. The discrimination against Swiss collective investment schemes compared to foreign solutions is to be eliminated via a circular from the Federal Tax Administration.

2.7

Infrastructure

Definition

The working group defined the topic of infrastructure on the basis of the following three themes:

1. Infrastructure for asset managers

We define infrastructure as issues that make it worthwhile and interesting for asset managers and their employees to work in Switzerland. Examples of infrastructure are an attractive tax environment for asset management firms and their staff, an adequate situation for office space and housing as well as international schools. This infrastructure either already exists or will automatically develop as demand for it does. For this reason we will not deal with this part of infrastructure in this report.

2. Auxiliary services

Here we mean services that are of major importance for asset managers, such as custodian banks, investment fund administration, securities accounting, auditors, legal counsel or prime brokers. These services are an essential prerequisite for a successful asset management location. But we also believe that these services develop automatically along with demand. For this reason we will not deal further with this part of infrastructure in this report.

3. Infrastructure of the financial centre

Here we mean the infrastructure that is made available through the joint efforts of the financial sector, including, for example, stock exchanges and markets, downstream securities services and financial and business information. The priority is to ensure that there is unrestricted and direct access to these services. We believe that this infrastructure should be offered in Switzerland for reasons of credibility. Below we go into detail on this part of the infrastructure.

Transparent and efficient access to infrastructure services

Vision

For an asset manager to execute his services, he needs to have transparent, efficient access to stock exchanges and markets as well as to downstream securities services and in-depth financial and business news.

Conditions

The following conditions must be met:

1. Stock exchanges and markets
 - Transparent, easy and efficient access to liquid stock exchanges and markets for securities, derivatives, OTC, foreign exchange, etc.
 - Access to real-time stock exchange data.
 - Internationally recognised, efficient stock exchange regulation to avoid abuse and conflicts of interest.
2. Downstream securities services
 - Complete clearing services as the central counterparty between transaction and settlement to reduce risks and costs.
 - Comprehensive, efficient, secure and inexpensive custody services, including the safekeeping of assets, corporate actions and securities financing (collateral management, securities lending & borrowing, etc.)
3. Financial information
 - Inexpensive and reliable access to global benchmark and event data.
 - Easy-to-use, proven valuation methods.
 - Access to corporate news.
 - Access to international benchmarks and indices.

Measures

- The services and other offerings that should be provided to asset managers in Switzerland for reasons of credibility should be determined on the basis of the above prerequisites. SIX is able to shape the offerings.
- Determine the services and offerings that established foreign providers can obtain efficiently, cheaply and without any risk.
- Discuss the results with SIX and draft the strategy and measures for the infrastructure of the Swiss financial centre.

2.8

Training and education

Comprehensive training possibilities for asset management specialists

Vision

Switzerland's major asset management associations, together with recognized public institutions (colleges and universities) ensure that there is wide range of training and education possibilities for specialists in the area of asset management. As a result, Switzerland has a good supply of very well educated specialists, both Swiss and non-Swiss, which fosters the development of clusters in Switzerland, such as hedge fund clusters.

The industry associations take advantage of every opportunity to exchange ideas and experiences with foreign partners.

The Swiss financial centre in general and asset management in particular has a transparent and efficient labour market, one that is attractive for both Swiss and non-Swiss specialists.

And finally, the infrastructure that foreign specialists need (such as housing, support in the administrative area, work permits) is not only assured, but it is also actively supported by clearly designated offices.

Weaknesses

Asset management is not in and of itself a clearly defined concept, which makes it more difficult to launch a new brand or to offer a well-designed training programme.

Leading universities offer courses in finance. These courses have a narrow interpretation of the concept of asset management, and they cover some broader areas that are related only in part to asset management. The courses are often a mix of wealth management, asset management and distribution activities.

The following institutions are basically the ones that can provide an education in the field of asset management:

- Universities
- Universities for applied sciences
- Institutes that specialise in finance (such as SFI, IMD, IFZ)
- National and international education programmes (AZEK, CFA)

The main point is that these must be officially recognised institutions.

The University of Zurich offers, for example, the modules “Asset Management: Applied Portfolio Theory”, “Asset Allocations and Performance Measurement”, “Asset Management: Advanced Investments” as well as “Portfolio Management Programme”, which are part of “Economic Theory for Finance” within the field of study of Banking and Finance.

The bachelor’s degree programme at the University of St. Gallen offers the module “Theory and Politics of the Financial Markets”, which covers the essential instruments in portfolio management, aspects of regulation and other relevant topics. Master’s degrees are offered with the modules “Asset Pricing and Portfolio Choice” and “Institutional Asset Management”. The latter module comes close to our definition, but it still covers only a few aspects of asset management.

The University of Basel offers various modules as part of financial market theory. But there is no specialised programme for asset management.

These examples show that the major universities as well as various universities of applied science (which we did not cover in detail) deal with various aspects of asset management. But there is no coordination between these institutions and the providers of various training courses. The upshot is that it has not been possible to set up, in cooperation with the industry, a clearly defined asset management study programme, as we defined it in our introduction.

This is true both for a basic education as well as for any graduate studies. The key point is that associations such as the SFA and the SBA should be involved in drafting a training programme.

A diploma in asset management should be based on clearly described minimum standards.

Once the basic education course has been established – including AZEK and CFA – it becomes apparent that Switzerland has a shortage of education seminars. Various institutions offer courses, but they are not sufficiently coordinated with the asset management sector. Such education seminars or conferences would also attract specialists from outside Switzerland.

Measures to address weaknesses

The following weak points need to be tackled using suitable measures:

- Launch of a specific course focused on asset management with follow-up training in the form of seminars and conferences.
- Increase the cooperation between colleges and universities and national and international industry associations.
- Define the minimum standards for asset managers while taking international trends into consideration.
- Support in administrative matters and infrastructure for international specialists who are interested in coming to Switzerland.

The cooperation between associations and universities noted above can also be increased among the various associations. This could take the form, for example, of a regular exchange of ideas between specialist groups.

Industry associations must be more closely involved in education at universities so that the needs of the industry are taken into consideration.

We would also like to suggest the idea of setting up a chair in Asset Management at a leading university. This chair would be financed by the industry (including associations and financial institutes). This also offers the opportunity to have a major influence on the education programme.

Time horizon and priorities

Although existing education programmes are not specifically directed at asset management, we feel that the topic of “training and education” must be a second-level priority in light of the greater urgency of the other issues we have covered in this document.

The implementation of the measures we described above is long term in nature and requires all participants to work closely together.

For these reasons a realistic time horizon is 12 to 24 months. The first step is for industry associations (SFA, SBA and others) to come up with a joint concept that can then be worked out in detail with universities.

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