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# Report on international financial and tax matters 2011

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Swiss Confederation

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# Preface

Renewed albeit uneven growth, highly indebted governments, turbulence regarding monetary policy and new demands for financial sector regulation – these issues are preoccupying the global economy at the end of the first decade of the new millennium. Switzerland, with its international financial centre, is addressing these challenges.

In the past, Swiss financial market policy was often perceived as relatively cautious, with little political noise made at international level. This policy has proved an overall success, as the strong position of the Swiss financial centre in an international comparison shows. Switzerland will continue to focus on protecting the privacy of its citizens while at the same time pursuing a policy that brings it international recognition and respect. This also includes actively putting forward its own ideas on the international stage.

In order to combine existing forces, the approval of Switzerland's financial market strategy by the Federal Council was followed by the creation of the State Secretariat for International Financial Matters, or SIF for short. SIF represents Switzerland on the national and international stage, particularly when it comes to preserving the competitiveness of Switzerland as a financial centre and as a business location for companies, as well as ensuring that it retains its attractive environment. This is to be achieved through international negotiations on financial and tax matters, and through the preservation of Switzerland's interests in international organisations. SIF's key tasks include carefully following developments in the international financial markets and assessing their potential repercussions for Switzerland. This is carried out in close collaboration with the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank (SNB).

The following report will give you an idea of the very diverse issues that came under the spotlight in the area of international financial and tax matters last year, as well as highlight the issues for 2011.

I hope that it makes for interesting reading.

Bern, January 2011

Federal Councillor Eveline Widmer-Schlumpf
Head of the Federal Department of Finance

# Overview

The financial crisis and its aftermath have revealed weaknesses in the international financial system and led to changes in the financial markets. These have affected Switzerland as a financial centre as well as its economy.

Nonetheless, Switzerland is well-positioned when compared to other countries. Over the past two years, it has actually succeeded in reducing government debt, while state intervention in favour of UBS proved successful and even had a positive impact on public finances. Switzerland ultimately continues to stand out as a highly competitive country.

Pressure on Switzerland has grown in recent years. The differing situations of industrialised nations, many of which have high levels of debt compared to Switzerland, have given rise to further demands at international level. On top of this comes the fact that Switzerland has a number of unique characteristics, given its federal tax system and the high importance it attaches to safeguarding privacy.

**Switzerland's financial market strategy**

*Strategic objectives*
– Provide high-value services for the economy
– Ensure favourable conditions for a high value-added financial sector
– Ensure high system stability and functionality
– Preserve the integrity and reputation of the Swiss financial centre

*The aim is to achieve these objectives by focusing on four strategic thrusts:*
– Increase the financial centre's international competitiveness
– Secure and improve market access
– Strengthen the financial sector's resistance to crises and the way of dealing with systemically important financial institutions
– Preserve the integrity of the financial centre

The global financial and economic crisis has paved the way for the emergence of a broad international consensus for improved and more efficient regulation in the area of finance and tax. This is a development from which we neither can nor wish to disassociate ourselves. Accordingly, the Federal Council fleshed out a new financial market policy in February 2010. It wants to be more proactive in future and contribute at an international level with innovative and credible proposals in the area of finance and tax. The aim is for Switzerland to profile itself as a secure, successful and globally respected financial centre which creates jobs, pays taxes, and makes a decisive contribution to prosperity.

How will this new financial market strategy be implemented? What has been achieved in the first year? What key challenges do we face? These are the questions covered in this first ever **"Report on international financial and tax matters"** prepared by the Federal Department of Finance.

The following key areas of focus apply for Switzerland regarding international financial and tax matters:

**Financial market regulation in Switzerland:**
At the end of September 2010, a commission of experts submitted its proposals for dealing with systemically important companies ("too big to fail") to the Federal Council. Having initiated the consultation process at the beginning of the year, the Federal Council is looking to submit its proposals for legislative amendments to parliament as early as spring 2011. Other current topics include the state regulation of bonuses, the creation of a general market supervisory body for stock exchange offences and market abuse, and the complete revision of the Insurance Policies Act. As a member of the Financial Action Task Force (FATF), Switzerland is also involved in the international fight against money laundering and terrorist financing. Throughout 2011, the FATF will be grappling with the key problem of tax fraud as a so-called predicate offence for money laundering and terrorist financing (see section 2).

**International tax matters:** In 2010, the Swiss parliament approved the first 10 revised double taxation agreements in line with the OECD standard. Further such agreements will follow in 2011. In October 2010, moreover, agreements in principle were reached with Germany and the United Kingdom with respect to concrete negotiations on a final withholding tax levied at source. This solution should ensure that tax obligations can be met without the privacy of bank clients being placed in jeopardy. Corresponding negotiations are to be held in 2011. Switzerland is also currently in talks with the EU regarding certain aspects of tax regimes where company taxation is concerned (see section 3).

**International financial system:** As a major financial centre with a very internationally-oriented economy and its own currency, Switzerland attaches great importance to playing an active role in international financial bodies. This is above all true of the International Monetary Fund (IMF), the Financial Stability Board (FSB) and access to the G20. The recent IMF governance reform will strengthen the position of the emerging markets and bring an adjustment in the allocation of the 24 chairs on the IMF's Executive Board. Over the next two years, Switzerland will be seeking to preserve its strong position in this key body (see section 4).

Country reviews and evaluations are a key working tool of the organisations responsible for international financial stability. Switzerland supports such reviews, which are conducted according to transparent and internationally accepted standards, and is actively involved as both reviewer and reviewee. For example, our country is playing a leading role in the FSB Peer Review for Spain. In 2011, the FSB will then conduct a Peer Review for Switzerland. Similar country reviews are also conducted by the IMF (economic and financial sector policies), the Global Forum on Transparency and Exchange of Information for Tax Purposes (administrative assistance in tax matters) and the FATF (combating money laundering).

The Federal Council has assigned the task of implementing the financial market strategy to the newly created **State Secretariat for International Financial Matters (SIF)**. SIF has been operational since 1 March 2010. It is responsible for preserving the interests of Switzerland in international financial and tax matters and representing Switzerland – together with the Swiss National Bank – in key organisations such as the FSB and the IMF. SIF also lays the foundations for financial market policy and financial market regulation, and participates in international efforts to combat financial crime.

# 1
# International developments

In 2010, there were clear signs of a recovery in the global economy. The IMF is anticipating an overall global growth rate of around 4.8% for the year as a whole. Despite the more tranquil situation, however, a number of uncertainties and risks remain in the financial sector.

The growth picture varies greatly from region to region. While gross domestic product (GDP) is likely to have risen by 2.7% in the industrialised nations in 2010 (2009: minus 3.2%), the IMF is anticipating a rise in economic output of 7.1% (2009: 2.5%) in the emerging markets for the same period. Growth in the industrialised nations continues to be driven primarily by extraordinary monetary and fiscal support measures. The risks remain high, therefore, particularly for public finances.

Huge losses on the part of major financial institutions have resulted in significant upheavals and thus changed market structures. A number of large institutions have disappeared or have merged with other institutions. As a result, consolidation in the financial sector has become even more accentuated. In addition, markets have been greatly influenced by government and central bank interventions around the world in response to the financial crisis.

At the regulatory level, the international standards for the capitalisation of banks have been revised by the Basel Committee on Banking Supervision. Quite how individual countries will actually implement these standards remains to be seen.

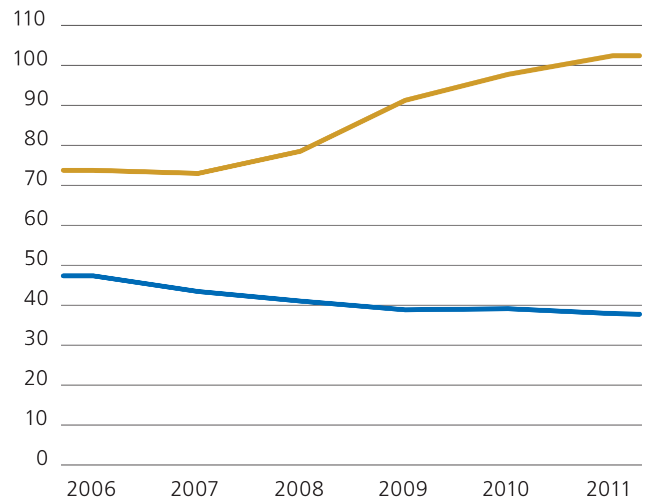
The central banks of the world's largest industrialised nations have been pursuing an expansive interest rate policy. In the USA, the target bandwidth set by the Federal Reserve System for key interest rates remains at 0.0% – 0.25%. The European Central Bank has left its key refinancing rate at 1.0%, and has continued to provide banks with unlimited liquidity. The policy of quantitative easing pursued by a number of central banks (most notably the Fed) has been continued.

As a result of the bailouts and the support measures implemented, government debt levels in most industrialised nations have risen sharply, a problem compounded by low economic growth. The euro zone has experienced significant periods of turbulence as a result of the debt situation in both Greece and Ireland. In order to take the heat out of the situation, the European Union (EU) and the IMF felt obliged to agree to exceptional financial assistance packages. The situation remains serious in a number of other countries, particularly in the EU.

The international community faces a number of major challenges. On the one hand, countries need to consolidate their government budgets, which will require considerable effort given the fragile nature of the economic recovery. On the other, reforms will need to be implemented in the area of financial market regulation if global financial stability is to be increased.

Given its international orientation, these developments have also drastically changed the environment for the Swiss financial centre.

**Public debt in % of GDP**




Switzerland
Industrialised nations

Source: IMF, World Fiscal Monitor

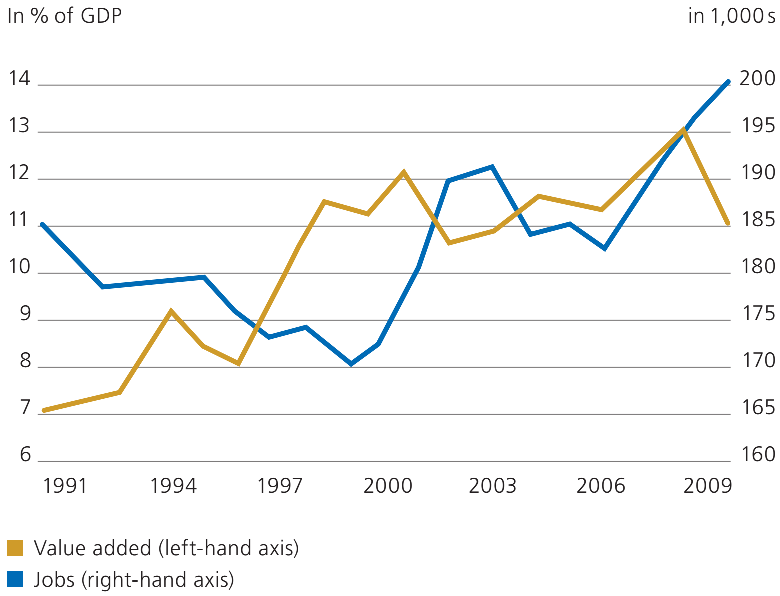
# 2
# Financial market policy

## 2.1 Overview

Following a year dominated by a loss of confidence and risk aversion in 2009, the Swiss financial centre experienced some improvement in 2010. The Swiss Bankers Association is anticipating slight growth in employment in the financial industry for 2010. It is also anticipating an increase in demand for credit, which could also boost the performance of banks. Even so, a number of uncertainties remain, which in turn will have an impact on the banks' trading and commission business.

The Swiss financial sector makes a considerable contribution to value creation in the Swiss economy, as well as to the levels of employment and tax revenues generated. In 2009, the value added by the financial sector amounted to almost 11% of GDP, with some 200,000 people (full-time equivalents) working in the sector. This represents a good 6% of total Swiss employment.

**Swiss financial sector**

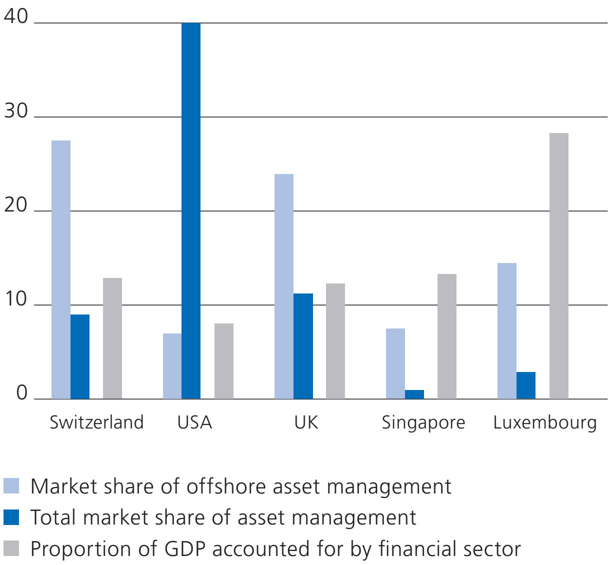



Source: SECO/SFSO

In other words, the financial sector is one of the key drivers of the Swiss economy and a major pillar of the domestic economy. The efficient allocation of capital and appropriate risk diversification together with sufficient credit supply are key prerequisites if the Swiss economy is to exploit its growth potential. The Swiss financial centre has a very international outlook and is primarily active in the areas of asset management, insurance and reinsurance, and the financing of commodity trading. It also acts as a base for financing vehicles such as hedge funds (including funds of hedge funds).

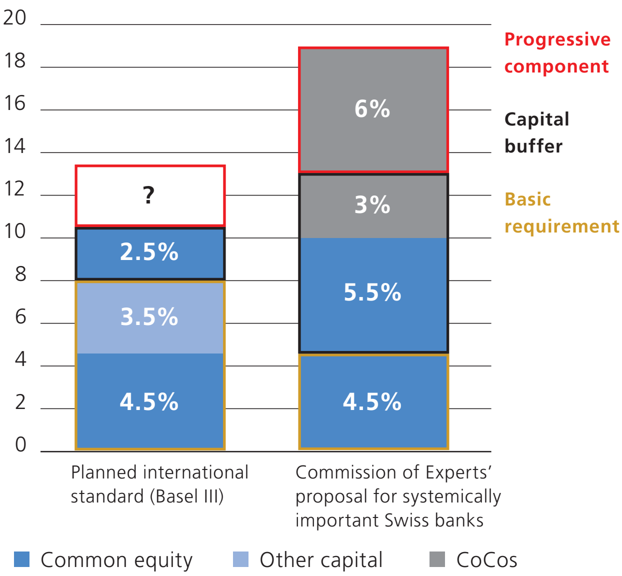
**Financial centre with a high degree of asset management**

In % of GDP (as at the end of 2007)




Sources: financial sector (gross added value): SFSO, Bureau of Economic Analysis (USA), National Statistics (UK: QTPR, NSRV, ABML), Statistics Singapore; STATEC Luxembourg; asset management: SwissBanking, Boston Consulting Group, McKinsey, Banque Centrale du Luxembourg

**Capital requirements in % of risk-weighted assets**




Source: FDF

## 2.2 Financial market regulation

### 2.2.1 "Too big to fail"

The latest global financial and economic crisis demonstrated in Switzerland too that a big bank with systemically important functions getting into difficulties can place a considerable burden on an economy. To prevent such banks from being "too big to fail" (TBTF), and in order for the state not to have to assume any financial risks itself to save them, the Federal Council wishes to limit the economic risks posed by big banks in the future. On 30 September 2010, the Commission of Experts submitted a number of proposals that have been welcomed by the Federal Council.

In December 2010, the Federal Council initiated the consultation on the necessary adjustment of the corresponding legislative proposals. The key focus is on four core measures: strengthening the equity capital base, more stringent liquidity requirements, better risk diversification to reduce the degree of interconnectedness within the banking sector and preparatory organisational measures to ensure the maintenance of systemically important functions (e.g. payment transactions) in the event of any threatened insolvency. The first two measures in particular also correspond to international efforts in this area and go beyond the requirements of the planned international standards (Basel III, see chart on page 8).

The four measures have been coordinated with one another, with the capital and organisational measures in particular designed to be interlinked. If a bank's capital ratio falls below a certain equity capital level, a previously drawn-up emergency plan is triggered, i.e. the systemically important functions will be transferred to a new corporate vehicle within a short space of time.

For implementation of the more stringent capital requirements, two new instruments need to be provided for in the Banking Act: reserve capital and convertible capital (contingent convertible bonds, or CoCos). The issue of CoCos in Switzerland will significantly reduce the legal risks in the event of an officially ordered conversion in a crisis. The Federal Council is proposing tax measures to promote the issue of bonds (and thus also CoCos) in Switzerland and to strengthen the Swiss capital market. These include, for example, the abolition of the issuing tax on debt capital and changes to withholding tax. Switzerland as a business location will benefit accordingly.

The draft legislation also regulates staff remuneration within those systemically important banks that have to rely in any way whatsoever on federal funds, despite all efforts to alleviate the too-big-to-fail problem. In such cases, the Federal Council will step in to ensure that adjustments are made to the remuneration system of the bank in question.

The consultation process with interested parties will last until 23 March 2011. The Federal Council's dispatch for the attention of parliament is expected in spring 2011 so that the bill can be considered by the first chamber during the summer session and by the second chamber during the autumn session. The legislative amendments are expected to come into force at the start of 2012 at the earliest. Transition periods should facilitate implementation.

### 2.2.2 Remuneration practices of financial companies ("bonuses")

How much should a banker earn? This question has been the subject of heated debate in political circles and among the population at large, triggered not least by the high levels of remuneration paid before and during the financial crisis, and in the banking sector in particular.

As inappropriate remuneration systems and mechanisms can be partly responsible for the assumption of excessive risk, and indeed played their part in contributing to the financial crisis, Switzerland is looking to take measures in this area. The aim is to promote corporate salary structures that can have a sustainable impact on companies' long-term prospects.

On 28 April 2010, the Federal Council entrusted the Federal Department of Finance with the task of elaborating the following three measures in the area of remuneration practice:

- Alteration of the tax treatment of employee share options, irrespective of industry sector
- Statutory restriction of the bonuses paid by financial companies in the event of state aid
- Taxation of the variable remuneration paid by banks and insurance companies

The Federal Council's proposal for employee share options to be taxed at the point of exercise without any privileged treatment has been approved by parliament. The necessary legislative amendment for regulating the remuneration systems of financial companies in the event of state assistance will be integrated into the current work on revising the Banking Act, which is aimed at limiting the economic risks posed by large companies (see section 2.2.1). Where the regulation of the remuneration practices of financial companies is concerned, the National Council will reach a decision in the spring on the profit-sharing model approved by the Council of States in its winter session. The FDF will continue to follow parliamentary progress on this issue in keeping with its mandate from the Federal Council.

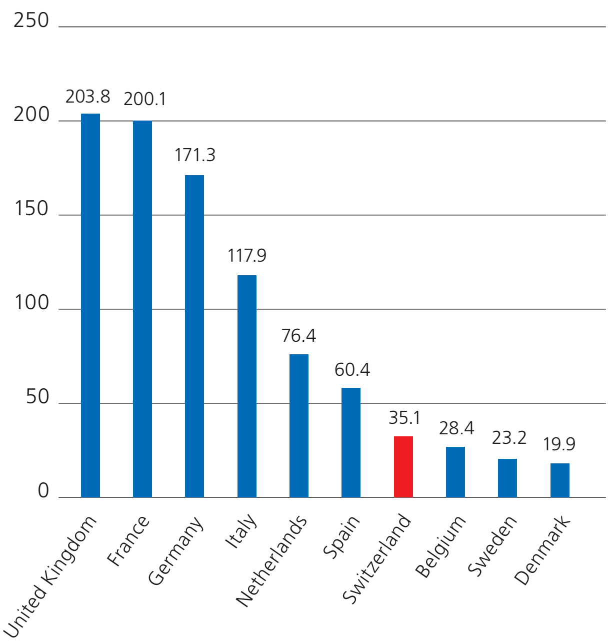
### 2.2.3 Insurance contracts

The Insurance Policies Act (IPA), which dates back to 1908, is no longer suited to modern requirements and is therefore to be completely overhauled. The legislation covers the relationships between insurance companies and policyholders. The complete revision of the law is designed to safeguard the attraction of Switzerland as a business location for insurance companies while at the same time increasing consumer protection. Following a consultation process in 2009, the federal government conducted an in-depth review of the economic repercussions of the planned revision. The ensuing report, which runs to some 300 pages, was published on 14 October 2010. In 2011, the Federal Council will submit a dispatch to parliament on the new IPA.

In addition to keeping up with assessments of the impact of this regulation, the work of the FDF has also encompassed a revision of the consultation draft. This will also address the referral of insurance (broker compensation) and other key issues.

**Switzerland has the seventh biggest insurance market in Europe**

In EUR billion (2009)




Source: Swiss Insurance Association SIA

### 2.2.4 Stock exchange offences and market abuse

The Federal Council is looking to put in place more rigorous standards for dealing with stock exchange offences and market abuse. In a consultation which ran from January to April 2010, the general response to the proposals put forward by the federal government was essentially positive. The FDF will now draw up a dispatch to be issued in spring 2011.

The content of legislation governing the criminal offence of insider trading is also to be reconsidered. In addition, there will now be a qualified offence for insider trading and another for price manipulation. The Office of the Attorney General of Switzerland and the Federal Criminal Court will continue to hold the authority to prosecute and rule on such stock market offences. The penal process is therefore being tightened.

According to the Federal Council, the protection of the Swiss financial centre and investors requires the introduction of general market supervision. All market manipulation – and not only that which is particularly damaging – will thereby be prohibited for all market participants. This means that in future non-supervised entities – such as hedge funds and private investors – will also be subject to partial supervision by the Swiss Financial Market Supervisory Authority (FINMA).

In contrast to its original proposal submitted for consultation, the Federal Council has now increased the maximum fine for intentional infringements of the reporting obligations that apply to equity stakes, as the sums of money that apply in such cases typically run into millions of francs. The Federal Council thus considers it to be appropriate that a criminal offence such as this should incur a maximum fine of CHF 10 million.

### 2.2.5 Regulation of hedge funds

The EU is looking to introduce more rigorous standards for the regulation and supervision of hedge funds from 2013 onwards, and accordingly finalised its Alternative Investment Fund Managers Directive (AIFMD) in November 2010. This directive covers non-UCITS[1] regulated funds (particularly hedge funds, private equity funds and real estate funds in the EU area). Switzerland is affected by this directive insofar as a European fund manager may be headquartered in Switzerland, just as a fund manager headquartered in Switzerland may offer both Swiss and European funds for sale in the EU. From the Swiss perspective, it is crucial that European fund managers are able to delegate certain business activities to Swiss financial services providers on the one hand, and that Swiss funds and fund managers receive the relevant "EU passport" on the other.

Switzerland has followed the development of this directive with great interest right from the start. In March 2010, Switzerland submitted a formal letter to the EU requesting discrimination-free access to the European market. This position was reinforced at a number of meetings with EU

[1] UCITS funds (Undertakings for the Collective Investment of Transferable Securities) constitute a particular type of securities fund.

bodies. The FDF is additionally reviewing the extent to which Switzerland will have to adjust its statutory parameters for hedge funds and other alternative investment funds in order to gain access to the EU market in the future too.

## 2.3 Financial market integrity

### 2.3.1 FATF

Switzerland is at the very forefront of international efforts to tackle cross-border financial crime, and has effective mechanisms at its disposal for combating money laundering and terrorist financing. As a founding member of the Financial Action Task Force (FATF), Switzerland is committed to ensuring effective and practicable international standards in the 34 member countries.

The FATF is currently working to expand its international recommendations. Serious tax offences are now to be considered predicate offences for money laundering. Accordingly, financial companies would have a mandatory duty to report any suspicious cases to the authorities. The results of this work, which also involves consultation with the private sector, is expected to be passed as an overall package by the Plenary Meeting (the decision-making body of the FATF) by the end of 2011. Implementation is expected to follow in 2012/2013.

Given the broad international consensus that exists, it appears certain that tax crimes will be considered as a predicate form of offence in the future. However, member states have a certain freedom of manoeuvre when it comes to implementation in national legislation. Every country can essentially arrive at its own definition of a serious "tax crime".

In the interests of efficient implementation of the FATF rulings, Switzerland is opting for a narrow definition of serious tax crime. The main objective from the Swiss perspective is not the criminalisation of as many tax transgressors as possible, but the efficient combating of money laundering.

In the first year of the legislative revision, preventive measures were investigated, particularly the adjustment of the provisions for legal entities and legal constructs, the expansion of legislation to include politically exposed persons in Switzerland, and the revision of the provisions that apply in the area of life insurance policies. Furthermore, new measures were discussed that could make both administrative and mutual assistance more effective.

The FATF continued its member state evaluations as part of its third evaluation cycle. In a first round – due to be completed in 2011 – 34 member states of the FATF are being scrutinised. In 2010, for example, these included Germany, Luxembourg, Brazil, Saudi Arabia, India and Argentina. Switzerland too will be subjected to a country evaluation in due course. Switzerland is actively campaigning for peer reviews of evaluations and for subsequent post-evaluation controlling in order to ensure equal treatment and a level playing field.

In March 2010, the FATF published an international study on the financing of the proliferation of weapons of mass destruction, thereby fulfilling a mandate entrusted to it by the finance ministers of the FATF member states back in 2008. Switzerland was acting as co-chair of the relevant expert group. Above all, it is campaigning for more effective export controlling systems as the key instrument in the fight against proliferation financing, and for prior scrutiny of all new measures introduced in the financial sector with a view to establishing the degree to which they offer value for money. In order to help achieve these objectives, Switzerland is pushing to have the private sector heavily involved in the process.

Following the statements made by the G20, the FATF published and updated two lists with a view to strengthening its measures for designating non-cooperative countries and those countries whose mechanisms for combating money laundering and terrorist financing reveal serious shortcomings. Switzerland is working to promote a level playing field within this process as well as the development of transparent processes.

### 2.3.2 Other organisations in the area of combating money laundering and terrorist financing

2010 saw a strengthening of the international trend towards country evaluation. Today, numerous international institutions conduct peer reviews among their members. In the context of the fight against corruption, these include the OECD, the European Council and the UN. An important player in the area of the exchange of information in tax matters is the Global Forum of the OECD (see section 3.3), while the FSB should also be mentioned in the area of financial stability (see section 4.3). Consequently, the concept of "communicating vessels" has emerged, whereby the results of different evaluations are taken into account in the analyses of the FATF, and vice versa.

Finally, Switzerland is working to deliver improvements to global sets of measures for combating money laundering by making a substantial contribution to financing the IMF's trust fund for combating money laundering. Switzerland also contributes to the effective deployment of available resources through its involvement in the Steering Committee. The fund provides targeted support for countries with which Switzerland maintains close relationships.

## 2.4 Collaboration between financial market authorities

The financial market crisis showed once again the importance of smoothly functioning cooperation between the authorities responsible for the financial market. Various examples from around the world show that any number of conflicts of interests can emerge and seriously jeopardise smooth cooperation, particularly in the event of a crisis. In the case of Switzerland, overall cooperation between the FDF, the SNB and FINMA has functioned well in the past, above all when it has involved the tackling of crises. In order to increasingly institutionalise and thereby further improve collaboration between the three authorities, the FDF has drawn up a tripartite Memorandum of Understanding (MoU) together with the SNB and FINMA. This MoU focuses on collaboration both prior to and during a crisis with respect to financial stability and financial market regulation. On the basis of the MoU, the parties involved will then also develop a concept as to how the Federal Council can be involved in a crisis from an organisational standpoint.

# 3
# International tax matters

### 3.1 Overview

Switzerland is an advocate of tax competition, as it believes this contributes to the efficient and frugal management of government funds. Where company taxation is concerned, the emphasis is on ensuring the ongoing appeal of Switzerland as a location for companies with a competitive tax burden while at the same time taking into account what is internationally accepted. In the case of natural persons, the claim of the state to tax revenues should be harmonised with the legitimate requirement of bank clients for protection of privacy. By combining a final withholding tax with efficient administrative assistance, the Federal Council has developed a concept that can allow both of these claims to coexist. Switzerland rejects the automatic exchange of information with respect to bank client information. This only yields data and unnecessarily impairs the aspect of privacy.

### 3.2 OECD

Switzerland is active on a number of international bodies that deal with tax matters. The key body for Switzerland is the OECD. The Committee on Fiscal Affairs is the leading body of the OECD for the development of international standards in tax matters. Based on the principle of consensus, it approves reports in the sphere of tax. Another key instrument is the OECD model tax convention, which serves as the basis for more than 3,000 bilateral double taxation agreements (see section 3.4.1).

The OECD has drawn up an international standard for tax cooperation to which its member states are expected to adhere. Significant progress has been made in Switzerland towards recognising and approving this international standard for transparency and the exchange of information in tax matters.

### 3.3 Global Forum on Transparency and Exchange of Information for Tax Purposes

The Global Forum on Transparency and Exchange of Information for Tax Purposes has stepped up its efforts since 2009. The current aim is to implement an international standard for transparency and cooperation in international tax matters. Given the backdrop of the financial crisis and as a reaction to pressure from the G20, the focus now lies above all on combating tax fraud and tax evasion.

In September 2009, the approximately 90 member states of the Global Forum approved a new mandate, paving the way for the establishment of a universal process for controlling and evaluation (peer review). This should ensure that the member states meet their obligations while also allowing for the acceptance of new members into the Global Forum. In addition, "non-members" will be identified, i.e. those countries that have either not committed to adopting the new standard or have failed to implement it. The underlying objective is to prevent such countries from deriving benefit from non-membership.

Switzerland played an active part in the establishment of the Global Forum, and even today belongs to a small circle of countries that are represented on both the Steering Committee and the Peer Review Group of the Forum. It plays an active role in the preparation of all decisions made by the Global Forum, for example in the evaluation of member states and is thus better able to leverage its concerns. The evaluation process is broken down into two phases. The initial phase focuses on whether tax-relevant information exists and is available for the national authority. Another component of this phase is the necessary legislative basis for the cross-border exchange of such information between the relevant national authorities. The second phase is targeted at reviewing the effectiveness of information exchange in particular. The evaluation of phase one for Switzerland is due to be completed in the first half of 2011.

## 3.4 European Union

### 3.4.1 Company taxation

Company taxation is an important part of the international competition between business locations. Switzerland has an attractive, politically broad-based tax system. The EU considers certain aspects of company taxation in Switzerland to be selective. For example, it is unhappy with the inequality in the tax treatment of domestic and foreign revenues in certain cantons. Switzerland is firmly committed to open tax competition. However, it is prepared to enter into discussions with the EU on certain issues of company taxation.

In June 2010 the EU put forward a proposal to Switzerland to cultivate a dialogue on the so-called "code of conduct" on company taxation. This code of conduct obliges EU member states to campaign on a political level against damaging competition in the area of company taxation. The idea is to eliminate distortions in the domestic market, avoid significant falls in tax revenues, and ensure that tax structures are designed in a way that is more conducive to employment. The focus is on tax provisions and tax practices that in certain situations lead to significantly lower effective taxation than is customary in the relevant member state.

On 18 August 2010, the Federal Council instructed the FDF to enter into exploratory talks with the EU Commission on a potential dialogue regarding this code of conduct. Together with the Federal Department of Foreign Affairs (FDFA) and the Federal Department of Economic Affairs (FDEA), SIF has entered into preliminary discussions with the Taxation and Customs Union Directorate-General (TAXUD), a process that has also involved the individual cantons. The aim is to set out the relevant prerequisites and conditions for any dialogue and to clarify the relationship with the dialogue conducted so far over cantonal tax status.

Switzerland is prepared to establish a new dialogue on this issue. Such a dialogue will focus on so-called "ring-fencing", i.e. the unequal treatment of domestic and foreign revenues. The precise conditions under which the dialogue will take place are still being discussed with the EU. From the Swiss perspective, it is important for the discussion to be kept within clearly delineated boundaries.

Back in 2007, the EU Commission criticised certain cantonal tax practices as constituting "illegal state aid", arguing that such practices distort free competition and breach the Free Trade Agreement which dates back to 1972. The Federal Council has always rejected this interpretation. A compromise solution proposed in 2009 fell through following resistance from certain EU member states.

### 3.4.2 Other EU tax issues

Switzerland has looked at various other tax issues as part of a range of discussions with the EU. For example, the EU wants to eliminate loopholes in the existing Savings Tax Directive. On the one hand, the EU is keen to extend this tax to further financial instruments (e.g. security-like debt claims, certain life insurance products and structured products). On the other, it wants to prevent the directive from being circumvented by using legal entities as intermediaries. Therefore, the aim is to define more precisely who is considered to be a paying agent and what their obligations are. Switzerland is prepared to discuss the closure of these loopholes, which also apply to the bilateral agreement on the taxation of savings income, as soon as the EU has completed its revision of the Savings Tax Directive.

At the same time, Switzerland is adamant that the automatic exchange of information is not up for discussion, and that the coexistence of tax retention and voluntary declaration as envisaged in the bilateral agreement on the taxation of savings income should not be called into question.

In addition, the EU is also considering – together with a number of third-party countries, including Switzerland – concluding agreements on the provision of administrative assistance in the tax area in accordance with the OECD standard (see section 3.2). The corresponding negotiation mandate has yet to be issued, however. Switzerland is at a very advanced stage in the implementation of the OECD administrative assistance standard as part of double taxation agreements (see section 3.5.1). It has agreed the corresponding administrative assistance clauses with numerous EU member states. An administrative assistance agreement with the EU therefore appears unnecessary from the Swiss standpoint.

## 3.5 Bilateral cooperation in tax matters

### 3.5.1 Double taxation agreements in line with OECD standard

In March 2009, the Federal Council decided to extend administrative assistance in tax matters and to include the corresponding Article 26 of the OECD Model Convention when negotiating new double taxation agreements (DTAs), as well as to revise existing DTAs accordingly. Since then, under the stewardship of the Federal Tax Administration (FTA), an administrative assistance provision has been initialled by 31 countries (as at 31 December 2010). This envisages the exchange of information *on request* for tax purposes.

At the same time, a number of agreement provisions have been improved (e.g. the reduction of withholding tax rates for dividends, interest and royalty payments), a number of discriminatory provisions have been removed, and arbitration clauses have been agreed. The first 10 administrative assistance provisions in accordance with the new standard – namely with Austria, Denmark, Finland, France, Luxembourg, Mexico, Norway, Qatar, the UK and the USA – were approved by parliament on 18 June 2010. The corresponding referendum deadline expired unused on 7 October 2010. By the end of 2010, most of the revised DTAs had entered into force. Switzerland is prepared in principle to adopt a standard-compliant administrative assistance provision in all its existing double taxation agreements, as well as include such a provision in any future agreements.

To ensure that the agreed administrative assistance provisions actually lead to an efficient exchange of information in practice, the Federal Council issued a corresponding ordinance (Ordinance on the Provision of Administrative Assistance in Accordance with Double Taxation Agreements) on 1 September 2010. This is to be replaced as soon as possible with an Administrative Assistance Act.

### 3.5.2 International administrative assistance in tax matters

The administrative assistance clauses of the individual double taxation agreements (see section 3.4.1) form the legal foundation for the exchange of information between Switzerland and the relevant contracting state. The way in which administrative assistance will be organisationally executed is to be covered by a Federal Act on International Administrative Assistance in Tax Matters (Tax Administrative Assistance Act). This will replace the Administrative Assistance Ordinance which entered into force in October 2010. The corresponding dispatch could be in place by the third quarter of 2011, depending on the results of the consultation process.

**Overview of double taxation agreements with an administrative assistance provision in accordance with the OECD standard**

*Agreements in force*

| | |
|---|---|
| Denmark | Luxembourg |
| Faroe Islands | Mexico |
| Finland | Norway |
| France | United Kingdom |
| Qatar | Spain |

*DTAs approved by parliament*

Austria (effective from 1 March 2011)
USA

*Signed DTAs*

| | |
|---|---|
| Canada | Kazakhstan |
| Germany | Netherlands |
| Greece | Poland |
| Hong Kong | Turkey |
| India | Uruguay |
| Japan | South Korea |

*Initialled DTAs*

| | |
|---|---|
| Ireland | Singapore |
| Oman | Slovakia |
| Romania | United Arab Emirates |
| Sweden | |

(Status: 31.12 2010)

The Tax Administrative Assistance Act will cover the provision of administrative assistance under DTAs and other agreements for the exchange of information in tax matters with respect to both foreign and Swiss requests for administrative assistance. As with the Administrative Assistance Ordinance, it will set out how and from whom the requested information is to be procured, the form in which the transfer of information is to take place, the parties to be informed about requests for administrative assistance, and to whom rights of participation and appeal will be assigned.

### 3.5.3 Final withholding tax

In addition to the consistent and swift implementation of the new administrative assistance policy in accordance with the OECD standard, the FDF was also mandated to reach an agreement on a final withholding tax and the legalisation of undeclared assets with key countries.

**The solution with Germany, for example, is to encompass the following points in particular:**

*Regularisation of the past: Untaxed existing assets should be regularised.*

*Final withholding tax for the future:* Future investment income should be covered by a withholding tax, the rate of which has yet to be negotiated. The final withholding tax is a tax at source. After it has been paid, the tax obligation towards the country of domicile will generally have been fulfilled. Extended administrative assistance has been agreed in order to prevent any possibility of circumventing the withholding tax. This envisages that the German authorities can submit a request for administrative assistance which states the name of the client, but not necessarily the name of the bank. There is a limit to the number of requests that can be made and they require a plausible explanation. Fishing expeditions are not permissible.

*Other elements:* Switzerland and Germany intend to resolve issues of mutual market access for financial institutions. The problem of the purchase of tax-relevant data is also to be resolved. The package includes resolution of the problem of potential criminal prosecution of bank employees.

At the same time, measures to ensure that no untaxed assets end up in Switzerland in the future are to be reviewed. In a further step, the negotiations are also designed to bring about the elimination of market access restrictions.

At the end of October 2010, Switzerland achieved initial successes in the implementation of its strategy with the United Kingdom and Germany. A joint declaration on the regulation of unresolved financial and tax issues was signed with both countries. This represents an important step forward.

In December 2010, the Federal Council approved the mandates for negotiations with Germany and the United Kingdom. The affected parties are taxpaying individuals domiciled in the partner countries who have existing bank relationships in Switzerland. The negotiations are due to commence at the beginning of 2011.

In the preliminary discussions, Switzerland – together with Germany and the United Kingdom – has been targeting a solution that both protects bank client privacy and ensures that legitimate tax demands are met. In its effect, this system would bear lasting comparison with the automatic exchange of information in the area of investment income.

### 3.5.4 USA

In an administrative assistance agreement dating back to mid-August 2009, Switzerland committed to providing the US tax authorities with data on 4,450 **UBS** client dossiers. By the end of August 2010, the Federal Tax Administration had examined the 4,450 or so accounts of UBS clients referred to in the agreement with the USA. Switzerland thereby fulfilled its principal obligation arising from the agreement with the USA. In parallel to the still outstanding process of supplying the agreed account information to the USA, SIF was coordinating discussions with the US authorities on the closing phase of agreement implementation. The actual transfer of the agreed account information to the USA had been largely completed by 12 November 2010. On 15 November 2010, the US tax authorities definitively withdrew their civil proceedings (John Doe summons) against UBS.

The "US Foreign Account Tax Compliance Act" **(FATCA)**, passed by the US Congress in March 2010, is designed to ensure the identification of (and reporting on) US persons with banking relationships outside the USA. It is not a bilateral agreement but an Act passed unilaterally by the USA with which all countries are supposed to comply. Given its significant international activity, particularly with the USA, Switzerland is highly affected by this Act.

The US Act envisages the imposition of a withholding tax amounting to 30% on specific payments from US sources (particularly investment income and capital gains) paid to any foreign financial intermediary for either its own account or that of a client. The foreign financial intermediary can avoid this procedure only by concluding an agreement directly with the IRS (the US tax authority). Such an agreement would involve the intermediary committing to the provision of information on any US person who either directly or indirectly maintains an account relationship with the institution in question.

If non-US financial intermediaries wish to invest in the US capital market and look after US clients once the Act enters into force, they will have to conclude the corresponding agreement with the US tax authorities. Any affected financial intermediaries would have to be prepared to take on a comparatively high administrative burden in order to comply with this agreement. During various discussions with the US authorities, SIF pointed out that the concerns of the financial industry players affected by the FATCA will also have to be taken into consideration. After the FDF was instructed to do so by the Federal Council, SIF explored the terms and conditions of simplified implementation of the FATCA with the US authorities during initial contacts. However, a large number of uncertainties remain regarding the application of this future US Act.

#### 3.5.5 Other bilateral tax issues

As a result of the financial crisis, a number of countries reconsidered their approach to international collaboration. For example, on 7 June 2010 Brazil published a list of countries for which higher withholding tax rates would apply in the future. One of the countries on this list was Switzerland. Switzerland immediately re-entered into DTA negotiations and thereby succeeded in being removed from this list for the time being. As a result, the higher withholding tax rates will not apply in the case of payments to Swiss taxpayers.

Other countries have published lists which have no direct tax repercussions but which target the procurement of information. On 16 August 2010, the Bank of Portugal issued an instruction to Portuguese banking institutions (including the branches of foreign banks), whereby these institutions were obliged to report at regular intervals any banking transactions of more than EUR 15,000 in offshore jurisdictions. Switzerland also figured on the list of affected jurisdictions issued by the Bank of Portugal. Switzerland has intervened and objected to this list both vis-à-vis representatives of the Bank of Portugal and vis-à-vis the Portuguese Ministry of Finance. It is insisting that Switzerland be removed from the offshore list following the initialling of an administrative assistance provision.

### 3.6 UN

One of the tasks entrusted to the 25-member UN Committee of Experts on International Cooperation in Tax Matters is the adjustment of the UN Model Convention on double taxation. Another is to coordinate a dialogue on the strengthening of international cooperation in tax matters, above all between countries in the developing world and those of the industrialised world. The revised Model Convention is due to be published in 2012. At this year's meeting, the UN Committee of Experts resolved to incorporate an arbitration clause into the Model Convention. Switzerland welcomes this clause, as it is standard practice in existing Swiss agreements. In addition, a working group of the Committee has drawn up a code of conduct for combating tax evasion. This is to be addressed at the political level in spring 2011.

# 4
# International financial system

## 4.1 Overview

In the recent financial crisis, the G20 positioned itself as the pace-setter in questions of international financial architecture. Switzerland is not itself a member of the G20. However, thanks to its strong, internationally-oriented economy, its significant financial centre, and its own currency, Switzerland does have a strong position in the key preparatory bodies of the G20, namely the FSB, the IMF and the OECD. Through these bodies, Switzerland is able to actively contribute its international expertise in financial market matters – for example on the TBTF problem (see section 2.2.1) or with respect to monetary questions.

Above all, the financial crisis has raised the level of awareness of the IMF among the wider public, be it through the credit arrangements with Greece and Ireland or through its role in monitoring the international financial system.

**Members of the Swiss constituency**

| Country | Vote weighting in % | |
|---|---|---|
| | Now | Post-reform |
| Azerbaijan | 0.084 | 0107 |
| Kazakhstan | 0.176 | 0.259 |
| Kyrgyzstan | 0.051 | 0.065 |
| Poland | 0.628 | 0.841 |
| Serbia | 0.222 | 0.159 |
| Switzerland | 1.568 | 1.173 |
| Tajikistan | 0.050 | 0.064 |
| Turkmenistan | 0.045 | 0.077 |
| **Total** | **2.824** | **2.745** |

Source: IMF

## 4.2 International Monetary Fund

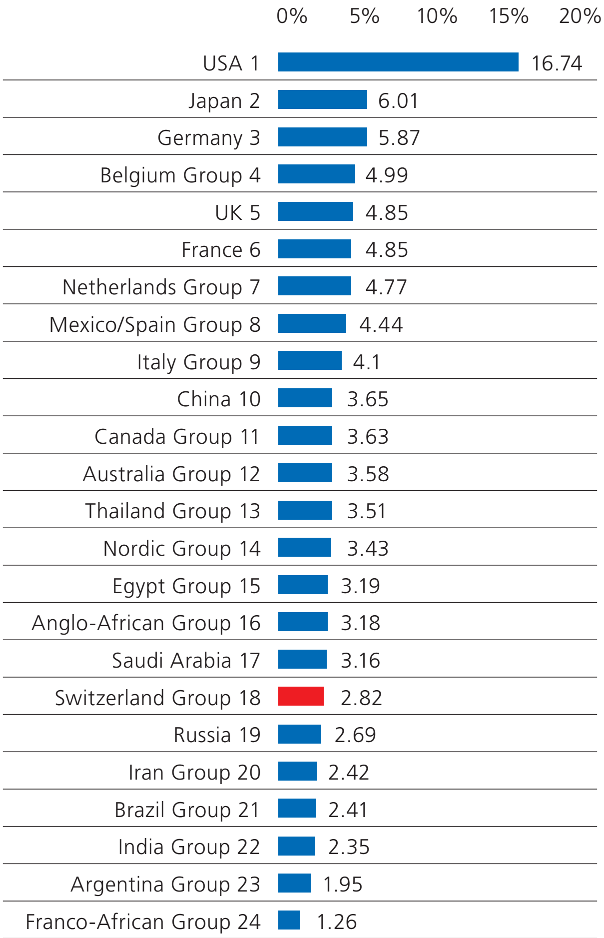
### 4.2.1 Reforms of IMF quotas and governance

In December 2010, the IMF governors approved a resolution to reform the quotas and governance of the IMF. This resolution provides for a doubling of the regular funds of the IMF as provided through the quota system. It will bring, a shift of approximately 6% of the overall quota to dynamic emerging markets and developing countries. This quota increase now has to be ratified by the IMF members, and will take effect in 2012 at the earliest. A corresponding draft will likewise be submitted to the Swiss parliament in 2011.

As a result of the shift in economic weights, the Swiss quota share will decline. However, just like the departure of Uzbekistan from the Swiss constituency in the IMF, this loss will be broadly offset by the increase in the quota of a number of other members within the Swiss constituency, most notably that of Kazakhstan.

Switzerland is generally supportive of a fair reform of the quota and governance system of the IMF. This is designed to adjust the voting rights

**Voting shares of IMF Executive Board members**




Source: IMF

of member states in line with the development of the global economy. However, in keeping with the IMF's mandate, the voting share should also reflect the economic size and significance of the countries in the international financial system. At the same time, the governance of the IMF should also be modernised.

From the perspective of Switzerland, the reform proposed in the IMF resolution only partly meets this objective. The failure to properly involve the non-G20 countries in the final phase of the debate has led to a situation where medium-sized industrialised countries have had to relinquish an above-average quota share. Moreover, there is a danger that the quota formula will be inappropriately adjusted once again over the next few years. For these reasons – and as a result of different opinions prevailing within its own voting rights group – Switzerland abstained from voting on the resolution.

In the medium term, the advanced European countries should reduce their combined IMF Executive Board representation by two seats in favour of the emerging market countries. The specific details of this redistribution of seats still has to be determined. Switzerland is of the opinion that a chair on the IMF Executive Board is justified on the basis of the size and significance of its economic and financial centre, the importance of the Swiss franc, and the role of Switzerland as a major financial contributor to the IMF.

### 4.2.2 Lending by the IMF

The lending commitments of the IMF as part of its current programmes reached a new high of around USD 210 billion in 2010, although new commitments were slightly lower than in 2009. The economic situation in general, and in particular the budget situation of many European countries, are a cause for concern.

Some 25 countries pursued loan programmes with the IMF in 2010. The largest programmes were those involving Greece, Ireland, Iceland, Hungary, Romania, Latvia and the Ukraine. The IMF's flexible credit lines (FCLs) agreed with Mexico, Poland and Columbia in the wake of the financial crisis in 2009 were extended for a further year in 2010 or increased. Low-income countries also experienced a significantly higher need for financing as a result of the financial crisis. In 2010, more than 30 countries pursued programmes with the IMF through the "Poverty Reduction and Growth Trust" (PRGT). This involved credit commitments amounting to some USD 4 billion, with an interest rate set at 0% until 2011.

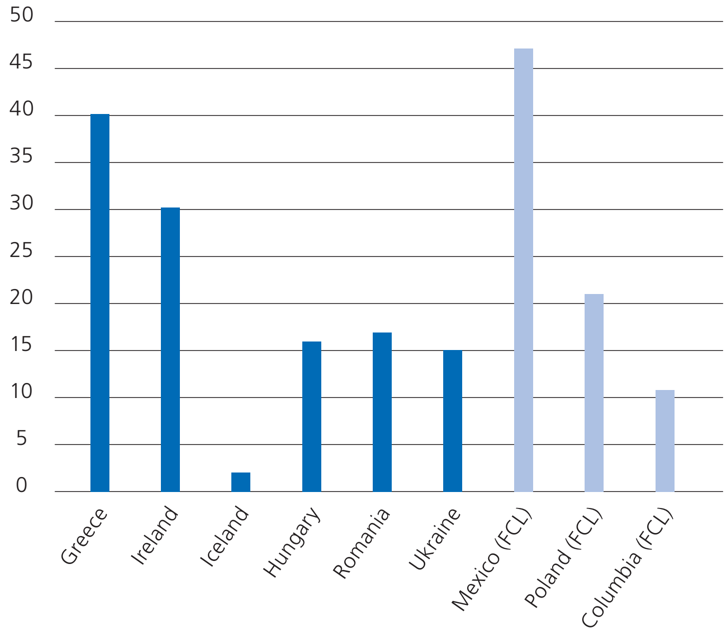
### 4.2.3 IMF funding

The IMF's regular funding is provided by its members via the so-called quota system. These quotas can be called on by the IMF as needed. They earn interest at the going market rate and are typically provided by countries' central banks.

Because of the recent financial crisis, the IMF has committed substantial resources, which is why its regular funds are running short. In 2010, the IMF therefore had to resort to a number of short-term bilateral credit lines, which were provided to the IMF by 21 countries. A corresponding credit line from Switzerland up to a maximum of USD 10 billion, the so-called "IMF exceptional assistance", has been pending since 2009 and is currently awaiting approval by the National Council, the second chamber of the Swiss parliament.

**IMF arrangements with selected countries**

In USD billion (2010)




Source: IMF Financial Activities

**Swiss credit obligations vis-à-vis the IMF (as at October 2010)**

| In CHF mn, rounded | Utilised | Still undrawn | Total |
|---|---|---|---|
| – Quota | 1232.5 | 4115.2 | 5347.7 |
| – Gen./New Arrangements to Borrow | – | 2381.2 | 2381.2 |
| – Purchase/sale of SDRs | 138.3 | 2403.7 | 2542.0 |
| – Poverty Reduction and Growth Trust | 342.1 | 5.2 | 347.3 |
| **Total** | **1712.9** | **8905.3** | **10618.2** |

Source: SNB

The fundamental elements needed for an increase of the quotas and a bolstering of the financial safety net of the IMF, the New Arrangements to Borrow (NAB), were agreed back in 2009. The NAB will replace the temporary credit lines provided by individual countries. Given the persistent turbulence prevailing in the euro zone in particular, however, an activation of the NAB could become necessary in 2011. Their ratification is therefore of particular importance.

Under the NAB, the contracting countries provide the IMF with funding under the NAB to finance its support measures whenever its regular funds are exhausted. In total, the NAB are to rise to around CHF 580 billion (or 367 billion of Special Drawing Rights, SDRs[2]). In addition, it should also become easier to activate them in the event of a crisis. A number of major emerging countries such as China, India and Brazil are joining the NAB. On 8 September 2010, the Federal Council submitted a dispatch to parliament envisaging an increase in the SNB's participation from around CHF 2.4 billion to around CHF 17 billion (10.9 billion SDRs). Interest is paid on these credit lines at the prevailing market rate, and they are not guaranteed by the Confederation.

The IMF helps low-income countries to implement sustainable economic policies through its "Poverty Reduction and Growth Trust" (PRGT). The funds provided for this trust, which do not form part of the IMF's regular funding, are to be increased by a total of approximately USD 14 billion, primarily through bilateral contributions by donor countries.

The amount of 500 million SDRs sought by the Federal Council would correspond to Switzerland taking around a five percent share of the overall burden. This new loan would also be granted by the SNB, with interest paid by the IMF at prevailing market rates. The Confederation guarantees both the prompt repayment of the loan and payment of the interest. This would be the third such contribution from Switzerland, following the granting of loans by the SNB with a federal guarantee in both 1995 and 2001.

Switzerland provided no monetary assistance based on the Monetary Assistance Act (MAA) in 2010. A standing credit facility amounting to CHF 2.5 billion is available for potential assistance measures required to prevent or remedy serious disruptions to the international monetary system or to support countries which cooperate closely with Switzerland in the sphere of monetary and economic policy.

### 4.2.4 Switzerland's country review

On 14 May 2010, the Executive Board of the IMF approved its country review for Switzerland. The IMF found that by international standards Switzerland mastered the global financial and economic crisis well. The solid position of the country's public finances provided scope for stabilisation measures. Both the monetary policy stance adopted by the SNB and the measures taken by FINMA were considered by the IMF to be appropriate. In the view of the IMF, any departure from the expansionary policies necessitated by the financial crisis should be carried out gradually and with due regard to the remaining general economic risks.

[2] The Special Drawing Right (SDR) is the IMF's official currency unit, the value of which is derived from a currency basket made up of USD, EUR, JPY and GBP. At the same time, it is also a means of payment. The key central banks of the member states, such as the SNB, commit to acquiring SDRs from the IMF up to an agreed maximum level in exchange for currency or to redeem the acquired SDRs for currency. The SNB therefore shows the SDRs that it has purchased on its balance sheet as interest-yielding sight balances at the IMF.

Switzerland broadly agrees with the analyses and views of the IMF, particularly in the areas of monetary and financial policy. It also brought the Executive Board's attention to the fact that work is underway to reduce the systemic risk posed by large financial institutions, particularly in the context of work undertaken by the "too big to fail" commission of experts (see section 2.2.1).

### 4.3 Financial Stability Board

The Financial Stability Board (FSB) is the key international body dealing with financial market stability. Switzerland holds two seats on the FSB (one occupied by SIF, the other by the SNB) and is also represented in numerous committees and working groups. The FSB is driving forward a comprehensive agenda for reform. This envisages tighter regulation in many areas of the financial market (e.g. requirements for systemically important banks, improvements to supervisory processes). Furthermore, the FSB monitors compliance with international standards in the financial sector, and evaluates adherence to these standards by third-party countries.

With respect to systemically important financial institutions ("SIFIs"), the FSB has set out an international framework. All FSB members have been called on to intensify their supervision of SIFIs and to put in place measures to improve the resolvability of such institutions. In addition, member countries that are home to globally important SIFIs should ensure that these institutions are subject to tighter capital requirements and that they draw up cross-border resolution plans. This approach is in line with the one chosen by Switzerland. A newly created Peer Review Council which has yet to be established will evaluate the quality of the national measures taken.

At the instigation of the FSB, steps were taken at the beginning of the year exhorting members to comply with international financial standards more consistently. All member states have committed to complying with these standards, and announced their willingness to be subject to peer reviews. Switzerland is leading the team responsible for evaluating Spain in 2010, and will itself be subject to review in 2011.

**Member countries of the FSB**

| | |
|---|---|
| Argentina | Mexico |
| Australia | Netherlands |
| Brazil | Russia |
| Canada | Saudi Arabia |
| China | Singapore |
| France | South Africa |
| Germany | South Korea |
| Hong Kong | Spain |
| India | **Switzerland** |
| Indonesia | Turkey |
| Italy | UK |
| Japan | USA |

Furthermore, the FSB is continuing with its thematic reviews. The first of these is concerned with adhering to the principles of remuneration systems. By international standards, Switzerland is at an advanced stage in the implementation of these principles. The corresponding regulations or supervisory mechanisms are already in place. In the second quarter of 2011, the FSB is planning to conduct additional thematic reviews on "risk disclosures" and "mortgage underwriting practices".

Parallel to the peer reviews, the FSB is also evaluating compliance with a number of selected standards in the area of international cooperation and the exchange of information in all countries. The prioritisation of these evaluations follows the systemic importance of the countries in question, as well as how consistently they are adhering to the relevant standards. As Switzerland has already adopted the standards, it will not be subject to this evaluation – unlike the above-mentioned peer review. It will participate in the evaluations of other countries, however.

### 4.4 Collaboration with the G20

Switzerland is seeking to become more closely involved with the decision-making process of the G20 (group of 20 most important industrialised and developing nations) with a view to preserving Swiss economic and financial interests in key areas. Switzerland's particular focus in this respect is on regulation of the financial markets and the reform of international financial institutions.

In February 2010, the Federal Council instructed an interdepartmental working group to implement an approach strategy. In 2010, this working group activated the diplomatic network in order to strengthen relationships with G20 countries, particularly South Korea (2010 chair) and France (2011 chair) in the run-up to G20 summit meetings.

The working group has elaborated Switzerland's positions on the key aspects of summit agendas (reform of international financial institutions, economic policy, tax matters, international trade). Furthermore, Switzerland has also used the international framework to strengthen its position within international organisations and other forums created by the G20. As a member of the FSB, Switzerland is able to play a role in shaping the preparation and implementation of G20 resolutions on all aspects of financial market regulation. Switzerland contributes actively to this work, and in parallel participates in the work of the Bank for International Settlements and other international institutions.

### 4.5 Bilateral financial dialogues

The FDF maintains close bilateral ties with all key industrialised nations. These facilitate a regular exchange of views on questions concerning the international financial and monetary system, the G20 and financial market regulation. Encouraged by positive experiences of recent years and with a view to ongoing international developments, the FDF is interested in pursuing further financial dialogue with its partners and forging new contacts. Structured financial dialogues are being considered or set in motion with selected emerging countries such as **China, India** and **Russia.**

The idea is to use these financial dialogues to build up high-level contacts with the authorities of partner countries, with a view to identifying and implementing shared interests. These contacts should ensure the creation of an information network, thereby increasing Switzerland's ability to deal with sensitive topics quickly and efficiently and ensuring that it receives accurate information on future international developments in the financial sphere. Moreover, the FDF can sensitise partner countries to issues that are important to Switzerland so that these issues can be brought up – be it with respect to political or regulatory matters, the strengthening of Switzerland's position in the area of market access, ensuring global supervisory equivalence, or fiscal topics. The financial dialogues will be managed by the FDF. SIF will coordinate Switzerland's positioning in financial matters together with other organisations, i.e. not only with SECO (FDEA) and the Political Affairs Division V (FDFA) but also with FINMA and the SNB.

### 4.6 International activities in the area of customs

International financial matters under review also concern the customs area.

Switzerland is currently in negotiations – through the Federal Customs Administration (FCA) – with the USA on the latter's request for an agreement to be reached on mutual administrative assistance in the customs area. Both sides have already agreed in principle on the content of the agreement, which is to be broadly in line with the agreement on administrative assistance in the customs area reached with the EU in 1997. However, formal agreement has yet to be reached.

On 18 June 2010, the Swiss parliament approved the agreement with the EU on goods controls and customs security. The agreement envisages Switzerland bringing its customs security measures into line with those of the EU. Switzerland will therefore introduce the same measures as the EU towards countries outside the EU. The advance notification requirement for the movement of goods between third-party states will thus be mandatory from 1 January 2011.

Due to the fact that Norway is not a member of the EU, goods traffic with this country will be subject to this advance notification requirement from 1 January 2011. However, Norway has negotiated an agreement with the EU similar to the one with Switzerland on the simplification of customs formalities and on customs security measures, and thereby meets the European security standards. The FCA is currently negotiating with Norway on an agreement that would recognise the equivalence of the two countries' security standards and risk analysis. Once negotiations with Norway are complete (expected before the end of 2011), the FCA will commence negotiations on customs security agreements with other countries, namely the USA, Japan and China.

# 5
# Further information

Federal Department of Finance (FDF):
www.efd.admin.ch

State Secretariat for International Financial Matters (SIF):
www.sif.admin.ch

Federal Tax Administration (FTA):
www.estv.admin.ch

Federal Customs Administration (FCA):
www.ezv.admin.ch

Swiss Financial Market Supervisory Authority (FINMA):
www.finma.ch

Swiss National Bank (SNB):
www.snb.ch

Organisation for Economic Co-operation and
Development (OECD): www.oecd.org

Financial Stability Board (FSB):
www.financialstabilityboard.org

International Monetary Fund (IMF):
www.imf.org

Financial Action Task Force (FATF):
www.fatf-gafi.org