FONDATION GENĒVE PLACE FINANCIĒRE
GENEVA FINANCIAL CENTER

A strong financial centre
amid geopolitical, energy and fiscal uncertainties

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Geneva, October 11, 2022 - Check against delivery

Ladies and Gentlemen,
Dear journalists,

Thank you for joining us today for the Geneva Financial Center Foundation's traditional annual press conference. Like every year at this time, we are delighted to gather here to review the key challenges facing the Geneva financial centre.

The results of this year's economic survey, which Edouard Cuendet will discuss in greater detail later, reflect the many uncertainties confronting the financial centre today.

At international level, the health crisis continued to weigh on the first half of 2022, albeit less heavily than in 2020 and 2021. On February 24, 2022, the outbreak of war in Ukraine precipitated a major geopolitical crisis. I will return later to the sanctions against Russia and how they are being applied by the financial centre.

At national and cantonal level, fiscal attractiveness remains one of our top preoccupations. All the more so after the rejection at the ballot box, on September 25, 2022, of the proposed reform of withholding tax. I will discuss this point in greater detail, while Prof. Xavier Oberson will discuss the fiscal issues relating to Geneva.

Lastly, you are all no doubt aware of the "Building Bridges" initiative, which takes place every year in Geneva, in early October. This event demonstrates that financial flows are increasingly being directed towards more sustainable activities. I will conclude by outlining how financial institutions are contributing to this transition.

The impact of the war in Ukraine on the Swiss financial centre

It has been over six months since armed conflict broke out in Ukraine. I take the opportunity of this press conference to comment on the impact of the war on the Swiss and Geneva financial centres.

In a statement issued by the Swiss Bankers Association (SBA), the banking and financial sector firmly condemned Russia's war of aggression against Ukraine. It has also welcomed the sanctions against Russia adopted by the Federal Council. These measures are necessary to return to a situation in compliance with international law.

The Federal Council has issued several Ordinances based on the Embargo Act defining how international sanctions are to be applied in Switzerland. The State Secretariat for Economic Affairs (SECO) is tasked with implementing these measures, violation of which can result in a criminal penalty of up to five years' imprisonment.

FINMA, the Swiss financial markets regulator, also plays a role in ensuring compliance with these measures. It is in close contact with the institutions under its supervision and regularly asks them to provide relevant information. Additionally, it assesses legal risks related to the sanctions.

On February 28, 2022, the Federal Council decided to adopt the European Union (EU) sanctions against Russia, thereby reinforcing their impact. Switzerland has almost fully endorsed the six packages of sanctions adopted by the EU.

The list of financial sanctions is especially long. It includes the freezing of assets and resources belonging to over 1,100 individuals and companies named in the Federal Council Ordinance. Note that frozen assets must be declared without delay to the SECO. The Ordinance prohibits financial institutions from accepting deposits or cryptocurrencies from Russian nationals or companies based in Russia. The ban applies only to deposits over CHF 100,000.

Without going into further detail about these sanctions, I would like to underline that the European Union has commended Switzerland for its diligence in applying them.

Swiss banks have done a remarkable job of examining their databases to identify persons and entities subject to sanctions.

Lest we forget, under Swiss law, financial intermediaries are required to ascertain the identity of the beneficial owners of all assets held in account. Consequently, banks know who the true owners of these assets are. The fact that they may be held through an entity in no way alters this obligation.

While Russian clients represent an important segment for the Swiss financial centre, they account for only a fraction of the foreign assets managed in Switzerland. Other financial centres, such as London and Dubai, cater to Russian clients, many of whom also own property on the French Riviera. As of July 7, 2022, CHF 6.7 billion in Russian-owned assets were frozen in Switzerland, along with 15 properties. In comparison, the European Commission announced on July 12, 2022 that EUR 13.8 billion of assets belonging to oligarchs and other entities had been frozen in the EU.

The Geneva financial centre’s dependence on Russia is limited, as Russian clients are generally managed from Zurich. This observation is confirmed by our 2022-2023 survey, with most respondents reporting that sanctions have had little impact on their business.

Beyond the economic sanctions against Russia, the war in Ukraine has compounded the crisis in the energy market. To avoid shortages and strengthen the security of supply, the Federal government is working hand in hand with the relevant players to define possible scenarios and measures to be taken. As winter approaches – and with it the looming threat of energy shortages – banks must ensure operational security. Their focus is on financial infrastructure and liquidity risks. Transfers, stock market orders, and access to accounts are essential functions for the financial system and must remain operational even during a power outage.

To that end, the banking sector, under the leadership of the Swiss Bankers Association (SBA), is making every effort to ensure that its customers' assets remain secure and accessible in the event of a power cut. For example, the offline function on bank cards could be activated to enable clients to withdraw cash even if data transfer is interrupted.

The Covid-19 pandemic served as a first full-scale demonstration of the robustness of the continuity plans put in place by Swiss banks. Their ability to pivot to work from home perfectly illustrates that agility. The Swiss financial system is not an island, however, and Swiss banks remain dependent on the resilience of their foreign counterparts.

Lastly, the Financial Centre is taking an active part in initiatives spearheaded by the Federal government to reduce energy consumption. Among other measures, the SBA has joined the Energy Saving Alliance. In a circular to members on September 30, 2022, it listed recommended steps to reduce their energy use.

Fiscal attractiveness: obstacles in sight

I now turn to another central concern for the Geneva Financial Center Foundation: fiscal attractiveness.

Without a doubt, 2022 has been a pivotal year in terms of Switzerland's fiscal competitiveness. The financial centre may do everything in its power to demonstrate its adaptability and resilience, but these efforts will be in vain if Switzerland fails to provide the adequate taxation framework.

At international level, I will not discuss the taxation of multinational companies' profits, which the OECD is pushing for, since the deadline for implementation is not until 2024. We will have the opportunity to further explore this question in the context the popular vote of June 2023.

Neither will I comment on the tsunami of new laws and initiatives with fiscal implications at the cantonal level, as Prof. Xavier Oberson will provide a thorough analysis of the situation shortly.

I will, however, share my frank opinion on an issue of national importance: the rejection at the ballot box of stamp duty reform on February 13, 2022, and of withholding tax reform on September 25, are missed opportunities.

In the case of the most recent vote, it bears mentioning that the reform was rejected by a smaller margin than predicted by polls. Nevertheless, a significant majority in the three financial and economic centres, where most bond issuers and financial institutions are located, voted against the reform: 58.5% in Geneva, 59.5% in Basel City and 51.7% in Zurich.

There are several lessons to be drawn. First, the withholding tax issue was overshadowed by the presence on the same ballot of a proposed reform of the pension system, which affects everyone. Second, it is difficult to mobilize popular support for tax reforms that voters perceive as having no tangible effect on their back pocket.

On a more positive note, national business and industry associations, including economiesuisse, Swissholdings, the SBA and the Swiss Farmers Union, were unanimous in their support for all four issues on the ballot.

Unfortunately, maintaining withholding tax at 35%, the highest in the world, will hamper the development of the Swiss bond market, as it places it at a competitive disadvantage versus other financial centres, such as Luxembourg. For green bonds, the handicap is even greater. At the end of March 2022, only 75 green bonds were listed on the Swiss stock exchange, for a total volume of just CHF 25 billion. Meanwhile, more than 1,300 green bonds are listed on the Luxembourg stock exchange, with an aggregate value of more than EUR 675 billion.

Fortunately, the financial sector in hardly at a dead end, despite these obstacles. There is still ample opportunity for the more entrepreneurial players, especially in sustainable finance.

Sustainable finance: strength in unity

Several key trends have emerged within the banking and financial landscape, aimed at capitalizing on the positive momentum of 2021 and generating continued growth.

In practical terms, the Geneva Financial Center Foundation notes that achieving these objectives will require sustained investment in digital technology, with an emphasis on cyber security, as well as a strong commitment to sustainability.

On the latter point, statistics published by Swiss Sustainable Finance (SSF) indicate that financial flows are increasingly shifting toward greener activities: the volume of sustainable investments increased by 30% in Switzerland between 2020 and 2021 to more than CHF 1.98 trillion.

This transition is everyone's business and does not depend solely on the financial sector. Private and institutional investors, political authorities, NGOs and academia also have a role to play. The success of the third edition of "Building Bridges", which concluded a few days ago, shows that public awareness is growing. Throughout the week, discussions focused on the challenges facing the sector, including the quality of ESG data, employee training, information provided to customers, and the need to foster close relationships with the wider economy.

To address these challenges, the Financial Centre has defined **four priorities**.

First, to speed up the sustainability transition while preventing greenwashing, we need **supportive regulations** and a common definition at an international level. The European Union was the first to define classification and transparency standards for sustainable investment products. In Switzerland, federal authorities have taken a leading role alongside professional associations, which are championing a self-regulatory approach. That will require close cooperation between all stakeholders.

In contrast to the EU, the Swiss model is based on voluntary self-regulation. I am convinced that this bottom-up approach is the best solution. In that regard, I would like to underline how quickly umbrella organizations have mobilized to make this happen. In the past year, the Swiss Bankers Association (SBA) and the Asset Management Association Switzerland (AMAS) have issued three self-regulation guidelines for banks and asset managers. The first defines minimum requirements for integrating ESG criteria and risk considerations in investment advice and portfolio management for the banking sector. The second concerns the energy efficiency of buildings as a factor in the financing decisions of mortgage providers. The third establishes standards for sustainable investment products and is directed at asset managers.

The second priority is **education and training**. For the financial centre to continue meeting its clients' expectations, sustainable finance will need to be integrated into the curriculum at the vocational, professional, and university levels. That is the only way to offer products and services that are both attractive and sustainable.

This is another area in which financial institutions are taking an active role. Starting in September 2023, the banking apprenticeship curriculum will include a module on sustainable finance. Regarding professional training, the sustainability section of the SAQ CWMA (Certified Wealth Management Advisor) certification will be reinforced this year. Lastly, the University of Geneva and the Graduate Institute are contributing to this momentum by offering certificates of advanced studies (CAS) and master’s programmes in sustainable finance.

The third priority is digitization and **data reliability**.

The availability of comparable, easy-to-use data and key performance indicators (KPIs) is essential if the Swiss financial centre is to continue to play a central role in the transition to a more sustainable economy. To provide clients with information on the sustainability of their investments, banks need to be able to obtain the necessary data from companies. Indeed, financial flows reflect real economic activity. At present, however, ESG data is still not readily available for many Swiss companies.

That brings us to the fourth priority: **transparency**.

The Swiss Climate Scores, developed by the Swiss government in partnership with the financial sector and NGOs, offer improved transparency on the alignment of investments with the Paris Agreement. This pioneering initiative positions the Swiss financial centre as a leading source of sustainability data for clients and investors in Switzerland and abroad. By providing clients with transparency on their investments, the aim is to avoid a mismatch between expectations and the characteristics of the sustainable investment products offered by financial institutions.

Thank you for your attention. I now pass the floor to Edouard Cuendet, Director of the GFCF, who will present the results of our annual survey.