SFAMA News - Spring

SFAMA
Swiss Funds & Asset Management Association

SFAMA News Table of contents – Edition 1/2018

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Introduction

Various anniversaries in 2018

Happy 80th birthday!

Switzerland's oldest investment fund celebrates its anniversary. Swissimmobil Series D was founded on 24 March 1938, the first open-end real estate fund in Continental Europe. The product still exists today – as part of Credit Suisse Real Estate Fund Siat – and is the oldest investment fund under Swiss law currently in existence.

25 years of ETFs

SPDR S&P 500 ETF was the abbreviated name of a security launched 25 years ago that ushered in a revolution for investors large and small. The New York-listed index tracker was the world's first exchange-traded fund (ETF). Nicknamed "Spider", it was the first ever product that allowed investors to buy a share that replicated the entire S&P 500 Index of US blue-chip stocks. It opened up a whole new world of opportunity for small savers in particular as they could now buy a low-cost security offering broad diversification and balanced risk.

Retail funds, meanwhile, have a much longer history. Some historians believe that the fund industry started in 1774 with the launch of the first ever investment trust by Dutch merchant A. van Ketwich, so it is he we have to thank for World Funds Day.

7th World Funds Day

The first World Funds Day was held on 19 April 2012. Why this date in particular? The answer is that the Amsterdam-based merchant A. van Ketwich was born on 19 April 1744, and in 1774 he was the first to bring together a broad group of investors who bought units in a type of fund called Eendragt Maakt Magt (Unity Fosters Strength). This fund then invested in bonds of various governments and banks and in West Indian credits. A few years before, numerous British banks had been plunged into insolvency after granting high loans to a limited number of colonies. Van Ketwich recognized that broad diversification of risk was crucial in determining investment success. As such, he can be regarded as the father of the philosophy of fund investing. World Funds Day gives providers and associations alike a platform to present information on the basic principle behind investment funds – and SFAMA is naturally among those taking part.

We hope you enjoy reading this issue of SFAMA News.

The Board of Directors and Executive Board of SFAMA

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In focus

Looking back on 25 years of SFAMA

Why the funds and asset management industry needs to speak with one voice

Lobbying is not just a reaction to tax and regulatory initiatives, it is about representing a group's interests across the board. Investment funds were around before the Second World War, but they were few in number back then. The legal basis had been worked out within the banking system, and they were not yet officially regulated. The Swiss Bankers Association formed a "Commission for Investment Funds" in 1964 in response to the Federal Council's moves to impose withholding tax on fund certificates, and this was the starting point for the Swiss Investment Funds Association, which was set up in 1992.

The association originally focused on administration and distribution. For some years now, it has also been directing its attention toward another key aspect of the fund business: asset management. The "Funds Association", a name still frequently used colloquially today, became the Swiss Funds Association SFA and later the Swiss Funds & Asset Management Association SFAMA, representing the interests of all companies operating in institutional asset management on the Swiss financial market.

Funds remain the most important vehicles for selling asset management products to investors. However, there are others, including mandates, foundations, and insurance products based on asset management services.

Frequently consulted

A quarter of a century after its formation, SFAMA is frequently consulted not only by its members, but also by politicians, authorities, and the media and increasingly other associations in Switzerland and Europe as well. Its success has always stemmed from its openness to adopting new ideas while maintaining a rigorous focus on its members. This is particularly true of the work done on specific issues by the specialist committees and working groups that comprise over 100 honorary representatives of SFAMA member institutions. The specialist committees cover all important topics relating to funds and asset management.

SFAMA as a networking platform

In addition to formulating opinions for the benefit of politicians and authorities, a rigorous focus on members also means adding value in ways that help to move their business forward. With this in mind, SFAMA has established itself as a networking platform that not only serves to work out a unified position but also provides numerous opportunities for companies and associations alike to present themselves to other industry participants and find common ground.

Financial industry associations have existed in Switzerland for a long time, but they are often – quite understandably – more concerned with representing specific institutions such as banks and insurers or specific types of product such as funds or structured products and less interested in hard-to-grasp functions that span different institutions and

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products like asset management and distribution. As a result, asset management was not really perceived as a discipline in its own right for a long time. The value of asset management and the importance of the financial markets, for example in funding pensions, were also largely or even completely overlooked in decisions on economic and financial policy and tax law. The core task of asset management, in essence to achieve the highest possible return for investors, had no lobby of its own. The fragmented profusion of associations also meant that their wide range of activities, some of which conflicted with each other, attracted little attention and thus had little impact on the legislative process. They fell far short of the political power that the size and significance of asset management deserved.

Eventually, the industry recognized that it had to take responsibility for changing this unsatisfactory situation. SFAMA is now taking the operational lead in bringing together aspects that affect all institutions in a single platform focused solely on the asset management function. Everyone involved needs to understand that this cannot be allowed to degenerate into the sort of complaining that rarely brings interest groups much success. Instead, they must all pull together to present a united front and offer sound arguments to politicians and the general public.

Tone is paramount

It is a general rule of communication that tone is paramount. This is especially true for an association. It would of course be possible to scrutinize every action politicians take and stir up a huge fuss in the media every time the sector’s interests are threatened, but this would not be worthy of an association that wishes to be taken seriously in both political and public circles. In fact, it would be counterproductive. SFAMA is trying to find another way and to position itself as a cooperative partner for the general public that does not think in terms of problems but of realistic solutions. We will strive to bring our expertise, data, and facts to bear in political discussions.

The image of asset management, in our view, is positive, and its value has become increasingly clear to a broader cross-section of the population during this period of low interest rates. The degree of professionalism and transparency has increased dramatically. While it is hard to gauge the extent to which SFAMA’s work has contributed to this trend, we can be certain that it has had a positive effect. Clarifying the function of asset management and its importance is our goal, our ambition, and our motivation for the next 25 years.

Markus Fuchs

Managing Director of the Swiss Funds & Asset Management Association SFAMA

Latest News

Reminder

Deadlines coming up!

In this section we highlight any significant deadlines coming up over the short term. This is aimed at assisting your planning, but it is by no means an exhaustive list.

1. January 2016 – 31 August 2020

Financial Market Infrastructure Ordinance

The transitional provisions regarding the Financial Market Infrastructure Ordinance of 25 November 2015 are set out in Title 4 FMIO. In the absence of any ruling to the contrary in the specific transitional provisions, the new provisions apply from the entry into force, i.e. from 1 January 2016.

Fund markets

Key data on the international fund business

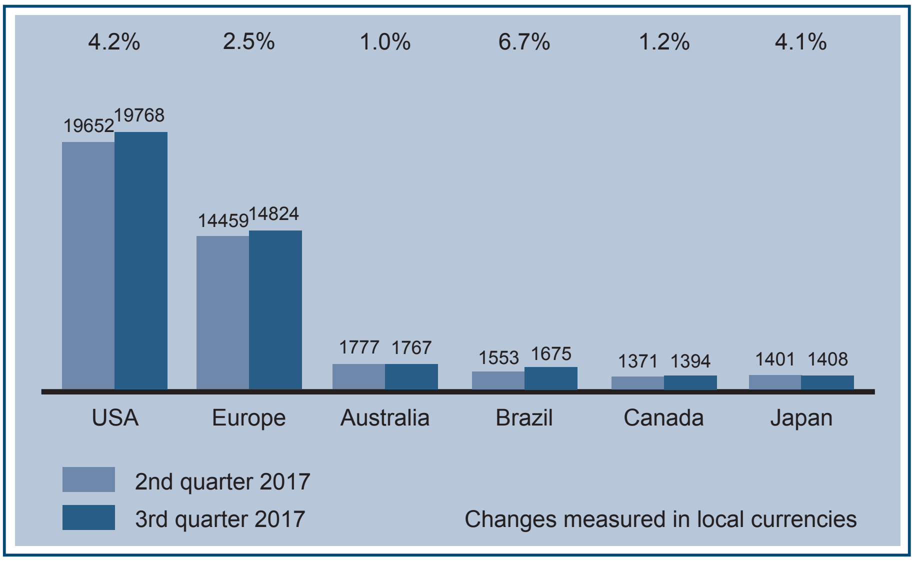
EUR 43.28 trillion in fund assets worldwide as at end of September 2017

The slight decline in global fund volumes in Q2 2017 was recouped in the following quarter. As at the end of September 2017, the newly calculated fund volumes stood at EUR 43.3 trillion, up 1.8% quarter-on-quarter and 0.2% for the six-month period. Funds of funds accounted for EUR 3.16 trillion. In 2014, working in conjunction with the IIFA (International Investment Funds Association), EFAMA incorporated new fund types such as ETFs, institutional funds, and hedging products into the universe covered, and this resulted in a massive increase in both fund volumes and product numbers. Direct comparisons with earlier data can therefore only be made with figures from the beginning of 2015 onward.

Positive development in global fund volumes across the board

With the exception of Australia, no country or region ended Q3 2017 in negative territory in EUR terms. The USD appreciated against the EUR during the quarter, which had an impact on the results. In the US, the total volume was just below the EUR 20 trillion mark at the end of September 2017. According to the latest EFAMA report, a total of EUR 14.8 trillion was invested in funds in Europe.

Geographical trends in investment fund assets in Q3/17 (in EUR billions)



Source: EFAMA International Statistical Release, December 2017

Scarcely any change in the international breakdown

Comparing the figures ascertained by EFAMA, both the US and Europe showed relatively stable shares in the fund assets invested worldwide as at the end of September 2017. Australia held on to third spot with 4.1%. Brazil remained close behind with 3.9%, and Japan defended its fifth place with 3.3%.

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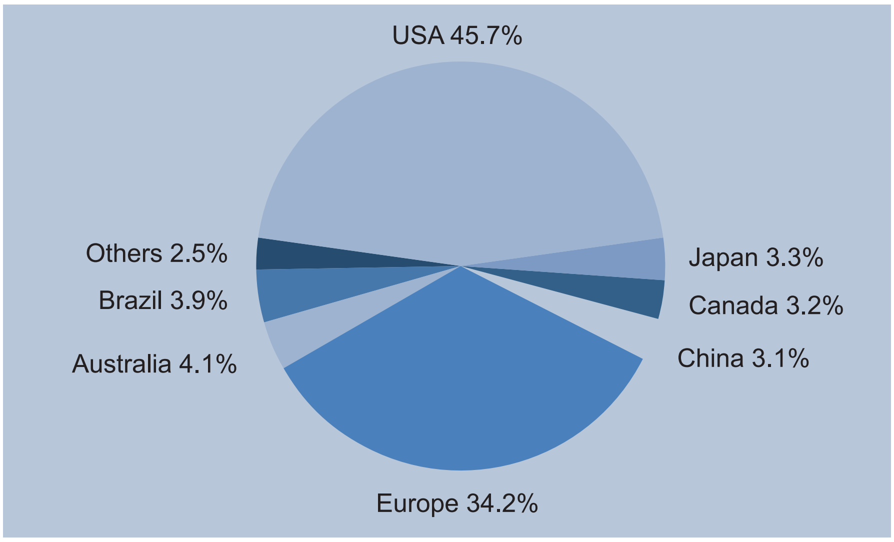
Geographical trends in investment fund assets by end of September 2017 (in EUR billions)



Source: EFAMA International Statistical Release, December 2017

Global fund universe of 125,772 funds

There was a further increase in the fund universe covered by EFAMA in Q3, and by the end of September 2017 it stood at a record high of 125,772 different products. This corresponds to an increase of 2,818 funds since the beginning of July 2017. The breakdown of products per fund category is as follows: equities 41%, bonds 21%, multi asset 18%, money market 11%, and others 9%.

Swiss fund market in 2017

Cooperation between Swiss Fund Data and Morningstar

Swiss Fund Data AG, a subsidiary of the Swiss Funds & Asset Management Association SFAMA and SIX Swiss Exchange Ltd, has been publishing statistics for the Swiss fund market together with Morningstar Switzerland GmbH since 2014. The market data of the two companies are brought together and published by Swiss Fund Data AG in the form of public market statistics and via a monthly statistics subscription service. This offering is complemented by the regular market commentaries from SFAMA, which cover the development of the Swiss fund market.

Fund volumes around CHF 1,086.9 billion

According to the statistics on the Swiss fund market, the total volume stood at CHF 1,086.9 billion at the end of December 2017, an increase of CHF 44.6 billion or 4.3% quarter-on-quarter. The figures are based on the FINMA approvals list and cover all funds under Swiss law as well as all foreign funds approved for distribution in Switzerland, including institutional unit classes.

Development of fund assets since January 2017

Fund category	Volumes 31.12.16	Volumes 31.12.17	Overall change
Equities	380.8	465.8	+ 85.0
Bonds	288.8	339.0	+ 50.2
Money Market	71.6	74.3	+ 2.7
Asset Allocation	108.5	128.6	+ 20.1
Others	3.1	2.7	- 0.4
Natural resources	19.8	23.0	+ 3.2
Alternatives	18.5	20.7	+ 2.2
Real Estate	32.0	32.8	+ 0.8
Total Swiss Market	**923.1**	**1086.9**	**+ 163.8**

Source: Swiss Fund Data AG / Morningstar (in CHF billions)

Broken down by asset class, equity funds still have the largest share at nearly 43%, followed by bond funds with around 31.2%. Asset allocation funds remain in third spot with around 11.8%.

Increase of 450 funds

At the end of 2017, there were 9,402 funds approved for public distribution, a net increase of 450. Of these, 1,642 were funds under Swiss law (+91), and 7,760 were funds under foreign law (+359), the latter category being dominated by 5,216 Luxembourg-law products (+261).

The revised Collective Investment Schemes Act is continuing to bolster the market activities of many providers, hence the net increase of 450 funds. Over the course of the year, 745 foreign collective investment schemes were newly approved, while 386 were removed from the register. A total of 173 Swiss-law products were newly approved, with 82 removed from the register. Of the 1,642 Swiss-law funds, 715 were approved by FINMA exclusively for distribution to qualified investors (please see also the table below).

Development of number of funds by type of fund / fund domicile
(in brackets: funds for qualified investors)

Fund type / Fund domicile	As of end-December 2016		As of end-December 2017		Change in the year 2017	
Swiss funds	**1551**	**(681)**	**1642**	**(715)**	**+ 91**	**(34)**
Swiss limited partnerships	18	(18)	18	(18)	0	(0)
Securities funds	136	(0)	137	(0)	+ 1	(0)
Other funds for tradit. inv.	1296	(623)	1382	(657)	+ 86	(34)
Other funds for altern. inv.	42	(14)	45	(17)	+ 3	(3)
Real estate funds	59	(26)	60	(23)	+ 1	(-3)
Non-Swiss funds	**7401**		**7760**		**+ 359**	
Luxemburg	4955		5216		+ 261	
Ireland	1583		1684		+ 101	
Other countries	863		860		- 3	
Total Swiss and Non-Swiss	**8952**	**(681)**	**9402**	**(715)**	**+ 450**	**(34)**

Source: FINMA (as of the beginning of January 2018)

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The ratio of foreign funds to collective investment schemes under Swiss law has remained fairly constant at around 4:1 over recent years. Luxembourg and Ireland are by far the largest foreign domiciles of funds approved here in Switzerland. With a total of 6,900 products, their market share had increased by one percentage at the end of 2017 to 89%. France held on to third spot, followed by Liechtenstein and the UK.

Sharp increase in assets under management year-on-year

Securities totaling CHF 6.2 trillion held in Swiss custody accounts

Thanks to positive market performance, the securities holdings in client custody accounts at Swiss banks rose sharply over the course of 2017, reaching CHF 6.2 trillion at the end of December according the Swiss National Bank statistics published in February. This represents a rise of 10.5% from the already relatively high level of CHF 5.6 trillion recorded at the beginning of the year. The current level represents the high point for 2017. According to the SNB's monthly statistics, the securities holdings of non-resident clients increased by 10.8% to CHF 3.1 trillion. In the case of resident clients, there was also an increase of more than 10%, bringing their holdings to CHF 3.0 trillion. At 50.9%, the share of non-resident clients in the securities holdings was minimally higher than in the previous year.

Same development of fund weightings for resident and non-resident clients

As regards fund holdings, resident clients posted an increase of around 12.8% to CHF 1,302 billion. Their non-resident counterparts had fund holdings totaling CHF 895 billion at the end of December, which translates into a rise of 16.7%. The trends in fund weightings over the course of the year were parallel for once. In the case of resident clients, there was a steady increase from the 41.9% recorded at the beginning of the year to 42.9% by the end of December 2017. The figure for non-resident clients also rose and now stands at 28.5% (up from 27.1%).

Development of securities holdings

Category	Domestic		Foreign		Total	
	2016	2017	2016	2017	2016	2017
Money market paper	22	22	42	45	64	67
Bonds	714	728	536	542	1250	1271
Equities	833	948	1332	1493	2165	2441
Collective investments	1154	1302	767	895	1921	2196
Structured products	30	34	158	165	186	199
Other securities	0	0	0	0	0	0
Total	**2753**	**3034**	**2833**	**3140**	**5586**	**6174**

Source: SNB, Monthly Statistical Bulletins (figures in CHF billions)

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Equity markets in 2017

One-way traffic

2017 is likely to go down in the annals of stock market history as an exceptional year. There was something to be earned virtually everywhere for investors as the stock markets rewarded practically everyone who ventured to invest in them, and there were especially rich pickings on offer for risk-tolerant investors.

Central banks and politics continuing to set the tone

The year began with many prophecies of doom and a lot of high hopes. After Donald Trump promised in his inauguration speech to “make America great again”, many foretold the end of the liberal rule of law, a trade war with China, the demise of NATO, or nuclear war with North Korea. Meanwhile, others dreamed of tax cuts, healthcare reform, higher interest rates, and a stronger dollar. Almost none of this has happened (thus far).

Under the heavy burden of excessive debt, the global economic upswing has up to now been unusually sluggish and protracted. After nearly a decade of below-average growth, however, the data are now pointing to a pick-up in pace. The business climate is positive, and job creation is gathering momentum in the US as well as in Europe and Japan. Moreover, the upswing is based on ever broader support, with previously flagging economies such as Russia and Brazil returning to positive real growth in 2017. A backdrop like this was last seen in 2007. The most important factor driving economic development worldwide was probably the easing situation in the eurozone. The feared negative impact of developments stemming from Brexit failed to materialize anywhere in 2017, and the election of Emmanuel Macron as French President also averted the dreaded prospect of the Grande Nation leaving the European Union. This also meant that Germany was able to profit from global trade. Even the eurozone problem cases Spain, Italy, and Portugal posted a thoroughly pleasing showing.

In this environment, the fact that inflation remains largely subdued comes as something of a surprise. However, inflationary pressure could now gradually begin to build, meaning that the central banks will slowly have to move down their desired path toward normalizing their extremely easy monetary policies. Of the major central banks, only the US Federal Reserve has started heading in this direction.

Pleasing returns for equity indexes

2017 will be remembered as an exceptionally good year for investing not just because of the high returns in many instances, but also because of the way in which they came about. Unlike the year before, the key stock markets were in positive territory from the outset, and there were no serious corrections to spook investors. Among the indexes in particularly impressive form was the MSCI World, which recorded a virtually straight-line increase of 20%. A wide range of other equity indexes in advanced economies posted gains last year on a scale more commonly seen in smaller and less developed markets. In the US, for example,

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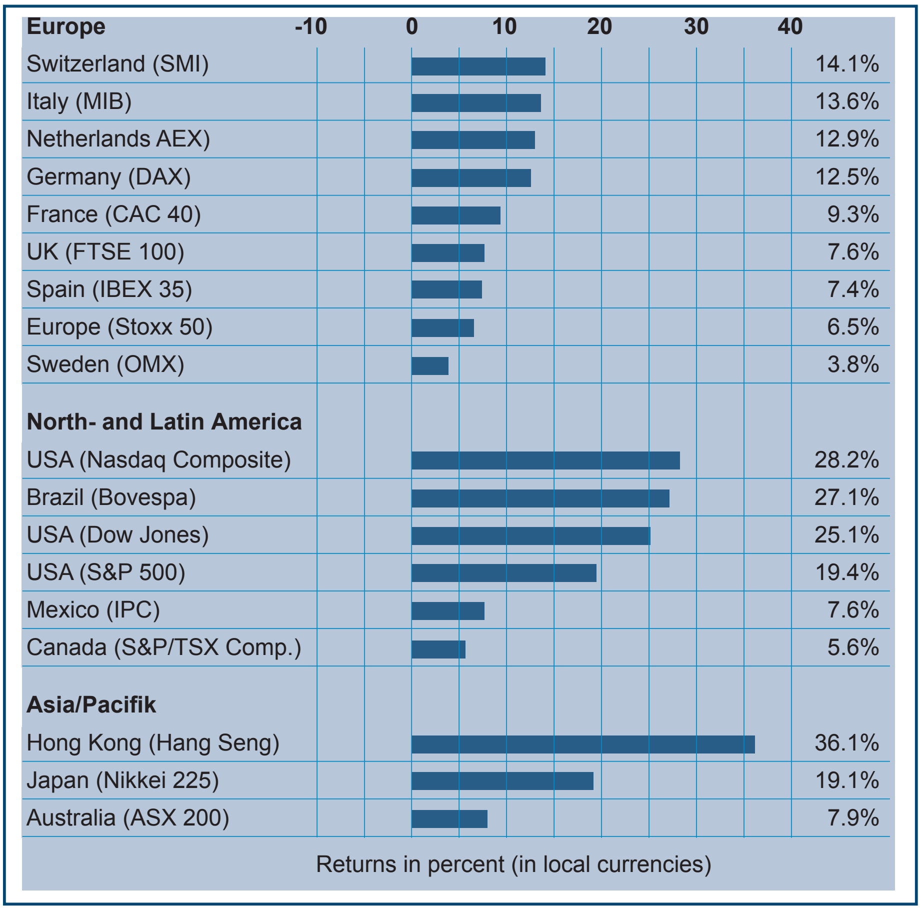
the S&P 500 gained 20%, and new all-time highs were virtually a daily occurrence. This was driven above all by tech stocks, which were the focus of greatly increased attention owing to the much-touted theme of disruption.

The environment could scarcely have been more conducive for equities. Economies gathered momentum almost across the board, above all also in Europe, which had long been lagging behind the US. The stock market euphoria in 2017, with some fireworks in certain emerging markets too, indicates a rising willingness among investors to take on risk.

The major stock markets in 2017



Sources: Bloomberg (NZZ of 03.01.2018), Onvista

Developments in Switzerland

The Swiss stock market also closed the year with a respectable gain, although the performance of the SMI was fairly moderate compared with other countries. The SMI hit its high for the year on 19 December 2017 at 9,468.84 points, only 80 points off its all-time high recorded in June 2007. Investors who backed underdogs fared exceptionally well, reaping much greater rewards than those holding well-known large caps in their portfolio. The Swiss small-cap index, the SPI Extra, gained more than 30% in 2017, with the companies represented in the SMI lagging behind by around 15 percentage points in terms of stock market value. It was possible to lose money on the Swiss bond market in 2017, though only just: a mixed portfolio of government bonds and private CHF debt would have delivered a yield of -0.2%.

Remain vigilant

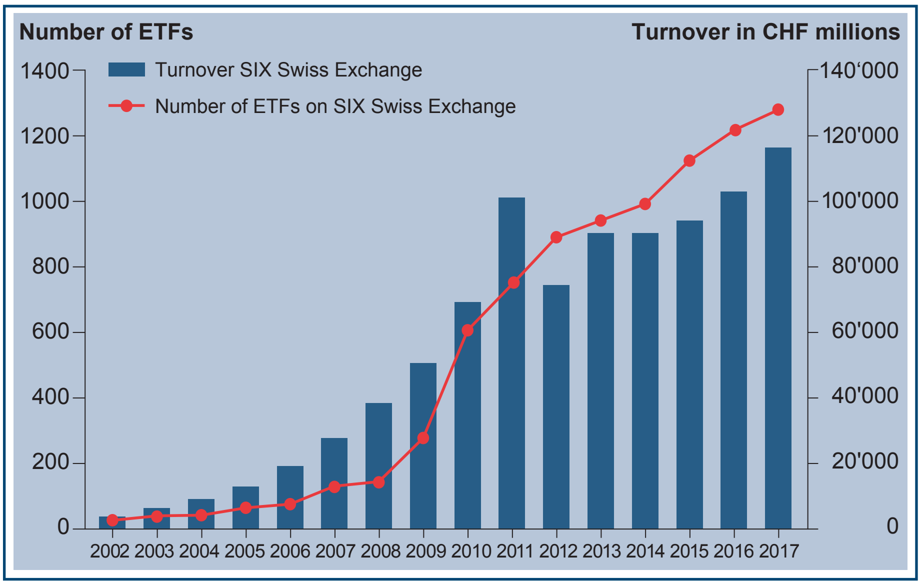
The upswing on the markets and also in various national economies has now been persisting for a relatively long time, which certainly urges caution. Amid the positive general mood, there are increasing warning signs. High valuations can mean that the markets are easier to knock out of kilter, and a surprise increase in inflation rates would be even more problematic. It would certainly make sense to check at this stage whether the portfolio risk chosen still tallies with the investment horizon and personal risk tolerance. If the answer is “no” to either of these, it would be advisable to take action and reduce the investment risk.

Swiss ETF market in 2017

Record volumes for exchange-traded funds

The turnover of exchange-traded index funds was curbed slightly for the first time in 2012, but ETFs resumed their success story thereafter, and this continued in 2017 with a gain of 12.2% year-on-year to CHF 116.4 billion, the highest level ever recorded. At the end of 2017, there were 1,278 different ETFs listed on the SIX Swiss Exchange, spread across 22 issuers. In terms of investment focus, products covering traditional equity markets were still out in front with a 27.5% share. Bond ETFs have a 20.3% share of the market with 259 products. There was a slight increase in the number of ETFs for commodities and precious metals, which rose to 94, but their share remained essentially stable at 7.4%. As regards trade sizes, the median is still very low at CHF 16,170.

Turnover and number of ETFs at SIX Swiss Exchange since year 2002



Source: SIX Swiss Exchange

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Yield on investment indicator for real estate funds in Switzerland

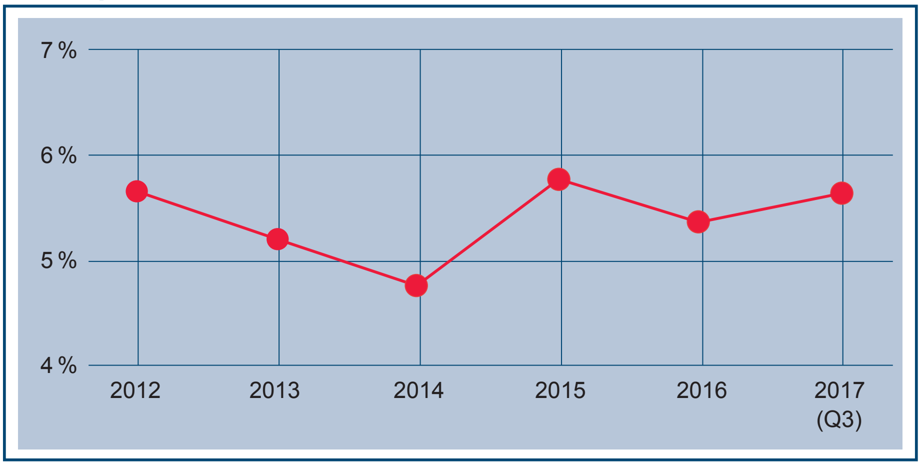
SFA ARI®

SFAMA launched the SFA ARI® in 2012 with a view to making it possible to compare the actual yields of listed Swiss real estate funds at the product level. This indicator is based on the investment yield statistics and is calculated quarterly (January, April, July, October) by Swiss Fund Data AG on the basis of the respective annual reports.

The fund universe comprises the real estate funds listed on the SIX Swiss Exchange that make direct real estate investments in Switzerland, with Switzerland being their sole investment country. Funds of funds and Swiss funds that invest directly outside Switzerland are excluded.

The current investment yield as measured by the SFA ARI® stands at 5.72%. This figure is based on the annual reports as at 30 September 2017, representing an increase of 0.30 of a percentage point over the previous quarter. 29 real estate funds with net assets totaling around CHF 31.5 billion were included in calculating the current figure.

Development of the SFA ARI® since 2012



Source: Swiss Fund Data

European funds post record inflows in 2017

Record year for the European fund industry

The European fund industry enjoyed a record-breaking year in 2017. To find out which fund companies were most successful on the distribution side last year, e-fundresearch.com analyzed the Morningstar fund database to see which asset managers had the highest sales on the European market (cumulative net inflows as of 31 December 2017, excluding ETFs, money market funds, and funds of funds). The 1,322 providers operating in Europe posted total net inflows of EUR 593.5 billion, but the overall picture is something of a mixed bag. The majority of the fund companies (64.5% or 853) recorded inflows. While the top ten

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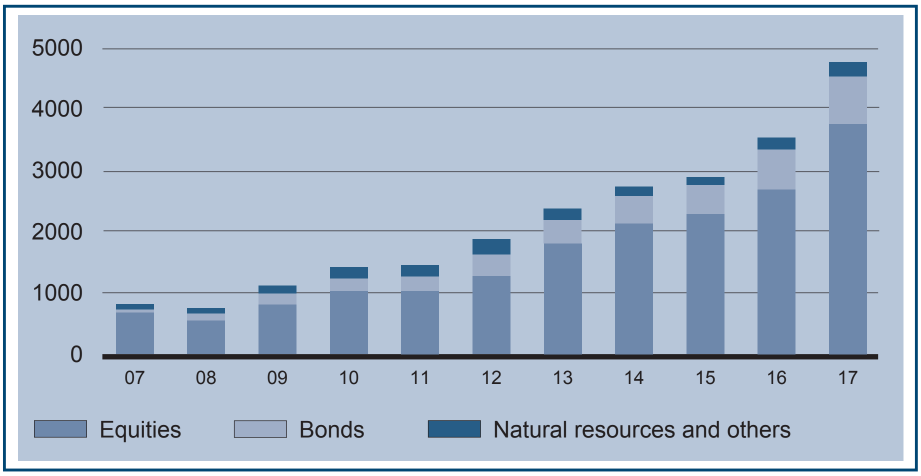
took in almost EUR 247 billion, 468 asset managers suffered outflows in 2017. Those with the highest sales include BlackRock, PIMCO, and Amundi.

Record year for ETFs as well

Inflows more than doubled in 2017

Investors around the world placed an additional USD 633 billion in ETFs last year, more than double the inflows seen in 2016. According to BlackRock, the total volume of assets invested in ETFs rose by 18% to USD 4.8 trillion. The trend was especially pronounced in the US, perhaps because its rules for pension investments favor investment products with low fees. It remains to be seen whether the EU's new Markets in Financial Instruments Directive (MiFID II), which came into force at the start of 2018, will have a similar effect in Europe. ETF investments in 2017 flowed primarily into products with US blue chips, which was probably due to the US economy's strong showing. These were followed by investments in industrialized nations, and bond ETFs (especially those with corporate bonds) also recorded net inflows. However, this latter segment demands careful attention to interest rate risks. Some investors had already started to rotate into inflation-linked bonds or short maturities last year.

Development of managed volumes in ETFs (in USD billions)



Source: BlackRock

ETFs also popular in Switzerland

Over 1,250 Swiss-listed ETFs

ETFs are also continuing their success story in Switzerland. This is good news for the SIX Swiss Exchange, among others, as ETFs and index funds generate a lot of turnover on the exchange – not just in terms of trading in fund shares themselves, but also via the constant need to expand, reduce, and otherwise adjust ETFs' portfolios. This results in a large number of securities trades. Indeed, trading on the SIX Swiss

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Exchange grew significantly year-on-year, with full-year turnover up 5.2% at CHF 1,345.9 billion in total. The number of trades was up 8%.

ETFs replacing structured products

The turning point came in 2009, when turnover of ETFs equaled that of structured products at roughly CHF 50 billion. Since then, a gap has opened up. Structured products have become less popular, whereas ETFs have enjoyed massive growth. There are still more than 31,000 structured products listed on the SIX Swiss Exchange, but their turnover in 2017 amounted to just CHF 16 billion, compared with CHF 116.4 billion (up 12% year-on-year) for ETFs.

Dutch brokers highly active

ETFs were responsible for over one million transactions on the exchange in 2017. They rely on market makers, i.e. securities dealers that help to adjust the underlying portfolio at the right moment. Dutch brokerage firm Flow Traders was by far the largest market maker in 2017, handling the lion's share of ETFs. Another firm from the Netherlands, Optiver, was also highly active on the market.

Many special products

Some 53 new ETFs were listed in the fourth quarter of 2017 alone. For some time now, there has been a growing trend toward issuing specially constructed index ETFs, for example focusing on high-dividend stocks or bonds with particularly short maturities. These products are often grouped together under the heading "smart beta", but the highly diverse category has become rather confusing for investors.

Pension funds managing more money than ever

Pension fund assets reach USD 41.3 trillion

The Thinking Ahead Institute and corporate consultancy Willis Towers Watson reported at the start of February that invested pension assets in the 22 biggest economies had risen by USD 4.8 trillion to USD 41.3 trillion in 2017. This is roughly equivalent to the combined annual economic output of the US, China, Japan, Germany, and France and represents the strongest growth in assets under management for 20 years. Pension funds from Hong Kong posted the largest increase of 21%, helped by a rally on the local stock market. The headline Hang Seng Index put on 36% over the year. In the past 20 years, the average annual increase in global pension assets expressed in USD was 6.2%, more or less in line with equity and bond returns. The US has the biggest market share with 61.4%, followed by the UK with 7.5% and Japan with 7.4%.

Key figures on the Swiss financial center

Handy booklet format

Twice a year, the State Secretariat for International Financial Matters publishes up-to-date figures on Switzerland as a location for financial services. This useful summary publication is available for download.

http://www.sif.admin.ch (under "Documentation")

Domestic environment

FinSA/FinIA

Slowly approaching the finish line

At a meeting lasting several hours on 13 September 2017, the National Council discussed and approved the FinSA and FinIA bills. Both were passed in the vote on the entire texts, by 126 votes to 63 with 2 abstentions and by 125 votes to 64 with 2 abstentions respectively.

The EATC-S completed the process of resolving differences on 23 January 2018 and advised the Council of States to accept the National Council's proposals on most points. However, some differences still remained. The Council of States debated the matter on 7 March 2018, essentially following the advice of the EATC-S. All of the details of the EATC-S proposal and the decision by the Council of States can be found in the summary:
https://www.parlament.ch/centers/eparl/curia/2015/20150073/S33%20D.pdf

The remaining differences are expected to be resolved during the summer session. There will then be a public hearing on the Federal Council's implementing regulations, the Financial Services Ordinance (FinSO), the Financial Institutions Ordinance (FinIO), and the revised Collective Investment Schemes Ordinance (CISO), in which SFAMA will of course take part. The Executive Board will set up a project organization to ensure that it can represent its members' interests as effectively as possible.

As things stand at present, the two laws and the ordinances are not expected to enter into force before 1 July 2019; 1 January 2020 currently looks to be the most likely date.

National Council wants to separate financial market regulation and supervision

Motion passed

Regulation by the Federal Council and Parliament, supervision by FINMA: the National Council wants to see a division of powers regarding the financial market. It passed a corresponding motion from its Economic Affairs and Taxation Committee to change the Financial Market Supervision Act by 126 votes to 52 on 6 March 2318, defying the will of the Federal Council.

https://www.parlament.ch/de/services/news/Seiten/2018/20180306084440618194158159041_bsd047.aspx

FINMA revises circular on video and online identification

Consultation until 28 march 2018

The Swiss Financial Market Supervisory Authority FINMA is updating the due diligence requirements for client onboarding via digital channels to reflect advances in technology. The consultation period for the changes to the circular will run until 28 March 2018.

https://www.finma.ch/en/news/2018/02/20180213-mm-rs-video-und-online-identifizierung/

FINMA publishes ICO guidelines

Creating clarity for market participants

In guidelines published in February 2018, the Swiss Financial Market Supervisory Authority FINMA sets out how it intends to apply financial market legislation in handling enquiries from organizers of initial coin offerings (ICOs). The guidelines also define the information FINMA requires to deal with such enquiries and the principles upon which it will base its responses, creating clarity for market participants.

https://www.finma.ch/en/news/2018/02/20180216-mm-ico-wegleitung/?pk_campaign=News-Service&pk_kwd=FINMA%20publiziert%20Wegleitung%20zu%20ICOs

UCITS application template

New version

The Swiss Financial Market Supervisory Authority FINMA has updated the UCITS application template.

G: https://www.finma.ch/ (Bewilligung / Institute und Produkte / Ausl. Koll.anlagen)
F: https://www.finma.ch/ (Autorisation / Instituts et Produits / Pl. coll. étrangers)

Blockchain/ICO working group established

Reporting to the Federal Council by the end of 2018

The State Secretariat for International Financial Matters has established a blockchain/ICO working group, which will review the legal framework and identify any need for action with the involvement of the Federal Office of Justice and the Swiss Financial Market Supervisory Authority FINMA and in close consultation with the sector.

https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-69539.html

Securities Lending, Borrowing and Repo Business

Circular no. 13 updated

The updated Circular no. 13 is available on the Swiss Federal Tax Administration (FTA) website. It covers securities lending, borrowing, and repo business with regard to withholding tax, foreign source taxes, stamp duty, and direct federal tax.

https://www.estv.admin.ch/estv/de/home/direkte-bundessteuer/direkte-bundessteuer/fachinformationen/kreisschreiben.html

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Taxation of Collective Investment Schemes and Their Investors

FTA circular No. 25 revised

The FTA has published a completely revised circular covering the taxation of collective investment schemes and their investors.

G: https://www.estv.admin.ch/estv/de/home/direkte-bundessteuer/direkte-bundessteuer/fachinformationen/kreisschreiben.html

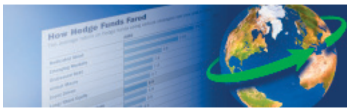
F: https://www.estv.admin.ch/estv/fr/home/direkte-bundessteuer/direkte-bundessteuer/fachinformationen/kreisschreiben.html

State Secretariat for International Financial Matters

Newsletter

The SFI Newsletter provides regular information on the latest news from the business areas covered by the State Secretariat for International Financial Matters. It is published three to four times a year in German and French.

http://www.sif.admin.ch (Rubric «documentation»)



International environment

European Commission wants to place large asset managers under ECB supervision

New proposal

The European Commission wants large European securities firms to be given the status of credit institutions in future, which would bring them under the supervision of the European Central Bank just like systemically important banks. This is the proposal put forward in a draft EU directive presented by the Commission on 20 December 2017.

http://www.fondsprofessionell.de/news/recht/headline/eu-kommission-will-grosse-vermoegensverwalter-unter-ezb-aufsicht-stellen-139923/

ESMA updates MiFID II and MiFIR Q&A

Investor protection, transparency

On 18 December 2017 and 7 February 2018, the European Securities and Markets Authority (ESMA) updated its questions and answers (Q&A) regarding investor protection and transparency. The new Q&A cover the topics of inducements, suitability, and provision of investment services and activities by third-country firms as well as transparency topics.

Investor protection
https://www.esma.europa.eu/sites/default/files/library/esma35-43-349_mifid_ii_qas_on_investor_protection_topics.pdf
Transparency issues
https://www.esma.europa.eu/sites/default/files/library/esma70-872942901-35_qas_transparency_issues.pdf

ESMA's supervisory convergence

Work programme 2018

On 7 February 2018, ESMA published its 2018 Supervisory Convergence Work Programme (SCWP), which details the activities and tasks it will carry out to promote sound, efficient and consistent supervision across the EU. For 2018, ESMA has identified the following priorities:

- Ensuring that MiFID II / MiFIR are applied in a sound, efficient and consistent manner across the EU
- Improving data quality to ensure efficient reporting under various requirements set by EU legislation
- Ensuring supervisory convergence in the context of the UK's decision to withdraw from the EU
- Safeguarding the free movement of services in the EU through adequate investor protection in the context of cross-border provision of services
- Monitoring developments in financial innovation, in particular through the analysis of emerging and existing instruments, platforms and technology.

SCWP 2018
https://www.esma.europa.eu/sites/default/files/library/esma42-114-540_2018_supervisory_convergence_work_programme.pdf

IOSCO on liquidity risk management for funds

Recommendations and good practices

On 1 February 2018, the International Organization of Securities Commissions (IOSCO) issued final recommendations that seek to improve liquidity risk management practices of open-ended collective investment schemes as part of its mission to protect investors, ensure fair and efficient financial markets and reduce systemic risk. IOSCO also simultaneously published a final report that provides practical information, examples and good practices regarding open-ended fund liquidity risk management to supplement its recommendations.

Recommendations
http://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf
Good practices
http://www.iosco.org/library/pubdocs/pdf/IOSCOPD591.pdf

Switzerland and Hong Kong strengthen their cooperation in financial markets

Bilateral meeting

In January 2018, Federal Councilor Ueli Maurer and Mrs Carrie Lam, Chief Executive of Hong Kong SAR, met in Bern to strengthen bilateral cooperation in the area of financial markets and to exchange views on international financial and tax matters. Authorities and private sector representatives from Hong Kong and Switzerland signed three Memoranda of Understanding (MoUs) during the meeting.

https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-69574.html

More than 1,650 firms claim GIPS® compliance

Increase of 2.8%

The CFA Institute informs that as of the close of last year's notification period, the current count of firms that claim compliance with the GIPS standards now stands at 1,653. That number represents an increase of 2.8% over the previous year and includes part or all of 24 of the Cerulli Top 25 largest asset managers globally. In addition, 1,440 of those firms opted to go through the verification process, which is not required for claiming compliance but does further demonstrate their commitment to transparent and fair reporting. Finally, more than 40 countries are represented by the firms claiming compliance.

https://www.gipsstandards.org (Rubric «Compliance and Verification»)

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SFAMA activities

Members

Additional member admitted

The Board of Directors and the Executive Board were pleased to welcome the following member to SFAMA in winter 2017:

- BlueStar Investment Managers SA

New Board members

Changes

Martin Thommen of UBS Asset Management left the Board in spring 2017 owing to a change of employer. Michael Kehl of UBS AG was co-opted to replace him in June 2017 and was officially elected at the 2018 General Meeting. He has been a Managing Director and Head of Product Management at UBS Asset Management in Zurich since January 2017, having previously been Head of Product Development and Management EMEA/Switzerland there for several years. Michael Kehl is a CFA Charterholder and graduated with a BSc in Business Administration from the University of Applied Sciences in Business Administration Zurich.

Petra Reinhard Keller of Credit Suisse stepped down from the SFAMA Board at the end of 2017, and her successor, Patrick Tschumper, was also elected at the 2018 General Meeting. Patrick Tschumper is a Managing Director at Credit Suisse Investor Services, where he has been Head of Fund Solutions since August 2014, and has been a member of the Board of Directors of Credit Suisse Asset Management Switzerland Ltd. in Zurich since January 2017. He previously served as Chief Operating Officer at Credit Suisse Investor Services for several years. Patrick Tschumper has a Master's degree in economics from the University of Zurich.

GIPS – new Guidance Statement on Benchmarks

Issued by SFAMA Swiss GIPS Expert Group

New feedback to the exposure draft of the GIPS® Guidance Statement on Benchmarks was published on behalf of the Swiss Funds and Asset Management Association SFAMA as the GIPS country sponsor in Switzerland.

http://www.sfama.ch/en/gips/statements

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Specialist committees

Highly active

The specialist committees essentially undertake the preparatory work for decisions relating to their specific areas, which they then submit to the Board of Directors and the Executive Board. The individual committees were/are actively involved with the following issues.

Alternative Investments
Hans-Jörg Baumann

- Detailed discussion on the focus topic of private infrastructure investments
- Discussion of possible business models (boutique approach versus multi-asset management) for providers of alternative investments

ETF & indexed Investments
Markus Götschi

- Working on improving the statistical basis for ETFs and indexed investments in collaboration with Swiss Fund Data and Morningstar
- Preparatory work for an ETF media event in March

Real Estate Funds
Roger Hennig

- Monitoring the ongoing revision of Lex Koller; coordination with the “For a modern Lex Koller” alliance (www.modernelexkoller.ch) and monitoring the further activities of the Federal Department of Justice and Police
- Analysis of the possible impact of Tax Proposal 17 (formerly CTR III) on real estate funds, both nationally and at the cantonal level

Processes & Operations
Daniel Lüdin

- FinSA/FinIA legal update
- IOSCO consultation on recommendations and good practice in liquidity risk management for funds

Risk Management
Martin Jufer

- Discussion of risk management approaches at individual institutions with a view to determining best practice
- Continuing work on a publication on risk management standards
- Consulting member institutions on risk management guidelines for asset managers

Legal & Compliance
Olivier Sierro

- Sharing initial experiences regarding the introduction of the EU PRIIPS KIID on 3 January 2018
- Discussing the impact of FinSA/FinIA on self-regulation and the change from “distribution” to “offering”
- Discussing the ongoing revision of FINMA Circular 2013/3 “Auditing”

Legal & Compliance Asset Management
Jasmin Djalali

- Consequences of implementing MiFID II
- Analyzing the developments and current status with regard to crypto-funds
- Discussion of action required in connection with OPO2
- Experience with SFAMA’s model declaration pursuant to OPO2 (loyalty declaration)
- Brexit and ESA reform as well as the implications for Switzerland
- Current status of FinSA/FinIA and next steps

Taxes
Hanspeter Kurz

- Tax Proposal 17
- Single-investor funds of a non-life insurance company
- DTA policy
- Measures to strengthen the financial center (abolition of stamp duty)
- Economic partial liquidation in the event of large redemption volumes

Distribution & Marketing
Markus Signer

- Analysis of changes relating to distribution in FinSA/FinIA due to the change of terms from “distribution” to “offering”, including the impact on SFAMA’s self-regulatory material
- Fleshing out the “investment funds for everyone” communication concept: the specialist committee plans to post about current fund-related topics on Twitter and other channels every two weeks, starting in April 2018. The aim is to keep followers informed in a new and succinct way. Follow @SFAMAinfo on Twitter for updates.

Upcoming events

Save the date

SCFS Funds Conference
Thursday, 23 August 2018
Zürcher Kantonalbank, Neue Hard 9, Zurich

GIPS Day 2018
Monday, 22 October 2018
Hotel Metropol, Zurich

Swiss Fund Day 2018
Thursday, 22 November 2018
Zurich

More detailed information on these events will be published on the Internet in due course.

http://www.sfama.ch/en/events

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Interesting reading

Friends of Funds

In partnership with SFAMA

SFAMA has a long-standing partnership with the neutral discussion forum Friends of Funds. The dates and topics set thus far are as follows:

Events in Zurich (cycle 30)	
17.04.18	Digitalization in the fund industry – where do we stand at present in Switzerland?
15.05.18	What changes will FinSA and FinIA entail for good old CISA?
26.06.18	Quantitative investments: Big Data – Big Performance?

Events in Geneva (cycle 12)	
05.06.18	Asset management / performance
11.09.18	Asset management / emerging or frontier markets
04.12.18	Efficient fund management strategies in Switzerland

Further information on the events in Zurich and Geneva, where available, can be found on the forum's website at

www.friends-of-funds.ch

New sections

The website was revamped at the beginning of 2016, and various new features added. Visitors can now download documents such as studies, research reports, PowerPoint presentations and survey results of partner companies. These can be found in the sections "Investment Center", "Service Center", "Education Center", and "News Center".

Use of event calendar free of charge

The Friends of Funds forum is continuing to offer an independent calendar for fund and financial industry events in Switzerland, intended for events of all kinds (including those with restricted audiences). If you have dates for roadshows, media conferences, seminars, anniversaries or other events, you can publish them free of charge via the website www.friends-of-funds.ch (under "Events / Ihre Veranstaltung").

http://www.friends-of-funds.ch

FINMA revises FMIO-FINMA

Consultation until 12 February 2018

The Swiss Financial Market Supervisory Authority FINMA is introducing a clearing obligation for standardized interest-rate and credit derivatives traded over the counter (OTC). Consequently, it is supplementing Annex 1 of its Financial Market Infrastructure Ordinance (FMIO-FINMA), for which it conducted a consultation that ran until 12 February 2018.

https://www.finma.ch/ (Rubric «News» / 2017.12.18)

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New EY report

Swiss asset managers falling behind on digital transformation

Digital transformation is changing the asset management landscape. Modern technologies are giving rise to completely new business models. In contrast to their international competitors, however, Swiss asset managers have so far failed to wake up to this trend and are having a hard time dealing with the change. According to the EY report, one in six asset managers in Switzerland has not yet made any effort to formulate an IT strategy for digital transformation.

https://www.eycom.ch/en/Publications/20171101-Digital-Disruption-in-Wealth-Management/download

New EFAMA publication

Independent study published to inform the debate on PEPP

The study is a contribution to the debate on whether the Pan-European Personal Pension Product (PEPP) should offer a default investment option with a financial guarantee, or whether the default option can rely on a life-cycling technique consisting of reducing the proportion of risky assets in the PEPP portfolio as retirement approaches.

http://www.efama.org/Pages/Bocconi-study-shows-benefits-for-consumers-of-life-cycle-investment-as-a-PEPP-default-option.aspx

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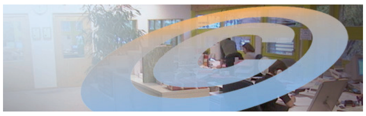

Impressum

Editorial team
Swiss Funds & Asset Management Association SFAMA
P.O.Box, CH – 4002 Basel
Phone +41 61 278 98 00
Fax +41 61 278 98 08
office@sfama.ch
www.sfama.ch

Layout and implementation
R Consult LLC
P.O.Box 140, CH – 5022 Rombach
Phone +41 62 827 37 47
roethlisberger@r-consult.ch
www.r-consult.ch

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