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Brexit – a challenge also for the Swiss financial centre

Ladies and Gentlemen

(Slide 1) It has been more than six months since the British people voted for Brexit. Even after Theresa May's Keynote it remains uncertain how Britain can shape its future relations with the EU. What is certain is that the historical Brexit hiatus will entail far-reaching changes not just for Britain, but also for the entire European continent – with immediate consequences for Switzerland and our status as a financial centre.

(Slide 2) I would now like to highlight four dimensions of the Brexit decision. These are: the potential impact on the further development of the EU itself; the potential positioning of Britain in terms of its future cooperation with the EU, which needs to be newly defined; and the implications of this for Switzerland's bilateral relations not just with the EU, but also with Britain. I will then offer a rough economic appraisal of the consequences for our financial centre and draw some conclusions.

(Slide 3) The challenge that Brexit poses for the EU and its institutions is inherently existential. The EU continues to be in an uneasy situation. The latest bailout of a bank in Italy demonstrates that the financial and debt crisis is not over by a long shot, and the massive flows of immigration amount to an acid test for Europe. It is a situation clearly reflected in the growing public distrust towards European institutions. The British vote for Brexit and the generally evident resurgence of nationalist-conservative forces attest to this. Against this backdrop, I see three basic scenarios for the EU's future, with different implications for Switzerland:

1. *'More EU'*: The remaining 27 EU members close ranks and, led by rather centralist forces, scramble to some kind of support for a 'Brussels administration' and decide to cooperate more strongly at various levels. It means avoiding a break-up of the EU at all costs, including by taking a tough stance against Britain. Donald Trump's presidency could well work in favour of this scenario because his protectionist 'America first' stance might further convince political leaders from important EU nations that Europe needs to be repositioned as a unified political bloc. It is a scenario that would likely have negative implications for Switzerland. As a third party, it would find it more difficult to strike tailor-made deals with Brussels.
2. *'A more flexible EU'*: The Brexit negotiations highlight the increasingly contrasting interests of its member states and force the EU into a radical reform of its institutions. In order to depart from its centralist approach and introduce leaner structures and more competition, a variable-

geometry model with different degrees of integration and co-determination rights is established. Such a constellation might allow for a solution with Britain that could also pave the way for Switzerland to normalise its relationship with the EU and selectively develop it further.

3. *'EU break-up'*: The political rifts within the EU escalate. At the same time, the nationalist-conservative forces in major member states continue to gain momentum and the immigration problem remains unsolved. It is well known that some government representatives from central and Eastern Europe are highly critical of Brussels. A creeping disintegration would spell disaster, and not just for the EU. Britain and Switzerland also have a vital interest in a stable, predictable and free-market-oriented EU partner.

(Slide 4) Against this as-yet invisible background, Britain now has to redefine its relationship with the EU. So it is hardly predictable what the final outcome of these – no doubt protracted – negotiations might be. Even if a Supreme Court decision gives the British Parliament a say in the matter, we believe that Theresa May and her 'Brexit means Brexit' stance will prevail in the end. While the path to the formal exit is still long and arduous, and notwithstanding all the existing difficulties, we do not assume that the Brexit decision will be overturned. Nevertheless, we worry about the present toing and froing and the uncertain outcome of the negotiations.

Beyond the already said it is now up to the British government to show more precisely how it proposes to shape its future relations with the EU. This gives rise to very different questions – should one go – to achieve the intended comprehensive free trade agreement - by the EU's existing legal structure and renegotiate just a few contentious issues, or should all elements of the relationship between the EU and Britain be redefined from scratch? Some of the controversial key themes are control over immigration, ensuring access to EU markets for the UK economy, as well as possible financial contributions to the EU single market. For the Swiss financial sector, it will be particularly important to see to what extent the City of London can still achieve a favourable passporting and equivalence solution for market access purposes – despite the conflict inherent in the British aim to curb migration and its claims to sovereignty.

Other questions arise as well: Will London be prepared to compromise so as to avoid losing EU-friendly Scotland? To what extent will Britain want to use its newly gained autonomous leeway in order to strengthen its own competitiveness? And, most importantly: How will the European Union react to it? To predict now in what way and to what extent the EU and Britain might cooperate post-Brexit would be mere speculation. Nonetheless, the UK has enough economic, geopolitical and military clout to play a strong hand when it comes to striking an advantageous deal with Europe.

(Slide 5) As far as Switzerland and the Swiss financial centre go, Brexit will directly and indirectly affect our relations with the EU and Britain, both of which are economically significant partners.

Our relations with the EU – Switzerland's most important trading partner – are regulated rather comprehensively with more than 120 agreements at present, but there is still room for improvement in various areas. Unfortunately, the Brexit issue has pushed Switzerland's concerns down the list of EU priorities yet again. Moreover, at this point Brussels will not want to set a precedent with Switzerland which Britain could take as a lead. On the other hand, I am convinced that the EU has no interest in keeping unnecessary conflicts with Switzerland alive. After all, it is well aware of Switzerland's economic and geopolitical significance for its member countries. Of course, in the financial services area we are still being denied active access to EU markets – even though this would be crucial for our export industry. This situation could eventually have negative effects on value creation, jobs and tax revenues. However, a thankfully soft implementation of the mass immigration initiative seems to have translated into a sustainable and EU-compatible solution – provided the constitutional obligation and the implementation can soon be harmonised from a legal angle. This opens up the perspective that the bilateral talks with the EU will continue and that the issue of market access for financial service providers can be pursued with new vigour. A solution between the EU and Britain on the market access issue, and in particular with regard to financial services, could set a positive precedent for Switzerland and its exporting banking industry.

As regards our relationship with Britain, most of it is regulated through our bilateral agreements with the EU. Once Britain exits the EU, a legal vacuum must be filled in order to preserve the status quo. Both the British and Swiss authorities are currently working on this issue in order to avoid negative implications for the two countries. A legal realignment would also offer the opportunity to intensify the bilateral relations between Britain and Switzerland and to fill some existing gaps. In doing so, it is important to keep in mind the financial sector and mutual market access.

Although it is difficult at present to make progress in our talks with the EU and truly solve the current impasse, we are not condemned to inactivity. Opportunities exist even today, and we need to seize them: in particular, we need to push the policy of equivalence with regard to the EU's financial market regulations so as to give our banks easier access to EU markets. Switzerland is well on track with its legislative process. Just think of the Collective Investment Schemes Act, the Financial Market Infrastructure Act or the so-called FIDLEG/FINIG package – comprising the draft Swiss Financial Services Act and Financial Institute Act – which is currently before the second chamber of Parliament. Switzerland also has decades of experience in negotiating with the EU, and its interests are comparable to those of Britain when it comes to bargaining with a centrally run EU. We would therefore welcome it if London and Berne were to further intensify their cooperation. Also, Britain joining the EFTA could give the European continent fresh impetus.

(Slide 6) As far as the Swiss financial centre is concerned, the economic consequences of Brexit should be manageable at first. However, we will hardly benefit from London's new 'weakness'. Switzerland has no EU market access in the area of financial services, our production costs are almost as high as in London's City, and the regulatory jungle keeps growing here as well. Those standing to be the potential winners from Brexit in the financial services sector are Frankfurt and, above all, Luxembourg. So-called 'quick wins' for Switzerland may come at best from investors who park their wealth in Switzerland until a solution is found between Britain and the EU. In the medium term, I can see danger arising from protracted discussions around the concrete implementation of Brexit. The resulting uncertainties may engulf not only Britain, but also the whole European area and therefore indirectly Switzerland as well. Nevertheless, from a long-term point of view, there is also a strong chance that the Brexit wake-up call might stir the European Union into constructive action – if it can bring itself to trim its apparatus and make it more competitive, it might foster more economic growth. However, from today's point of view, it is a highly speculative idea.

(Slide 7) In conclusion, let's say this: I think the open and unpredictable situation we now have makes it imperative that

Firstly – and given the EU's economic importance for Switzerland – we reach a long-term agreement with the EU, regardless of whether we 'like' its further institutional development or its way of cooperating with Britain;

And secondly, we keep close tabs on what happens in the Brexit process, how the EU responds to it and which solutions are taking shape. Given the lack of long-term planning certainty, this means updating the scenarios on a regular basis.

Thirdly, we need to make sure that Switzerland does not idly compromise its scope of action and that it can always readily avail of any potential window of opportunity.

Finally, it is absolutely essential that we as a small and open economy constantly optimise the political and economic framework conditions independently and swiftly adapt them to any change in circumstances. I am thinking here of free-trade agreements outside of Europe, an attractive tax policy (abolition of stamp duties, third round of corporate tax reforms), the curbing of our home-made regulatory jungle, bilateral market access in financial matters and, last but not least, a departure from the comprehensive-risk-cover mentality or, put differently, a zero-error tolerance in corporate matters. If we act as flexibly as that, we will be well equipped to take on the post-Brexit challenges.

I thank you for your attention.