THE FUTURE OF THE UK AS A GLOBAL ASSET MANAGEMENT HUB:

NURTURING UK-SWISS RELATIONS
Switzerland and the UK have a long history of strong trading links. They are principal trading partners with a vibrant mutually beneficial interaction in financial services. Supporting this relationship will be key for both partners going forward.

The UK in a Global Context

The UK is scheduled to exit the EU in March 2019. While the exact nature of the relationship with the EU is still unknown, it will certainly have a significant impact on the asset management industry and, in particular, UK-based asset managers.

The UK continues to work to establish both a new relationship with the EU and to enhance trade relationships with existing partners. Switzerland is a key example of an important and valued existing partner. It is the UK’s largest non-EU trading partner after the US and China. Similarly, the UK is Switzerland’s largest non-EU trading partner after the US. Post-Brexit, there will be even more parallels between the two countries, in particular, via their roles as major international financial centres interacting closely with the EU.

It is critically important to ensure the continuity of trade between Switzerland and the UK. A significant proportion of UK-Swiss trade relations, including those governing financial services, are governed by Switzerland’s bilateral agreements with the EU. Given the UK’s imminent exit from such agreements, continuity of trade relations could prove problematic particularly in a "no-deal" scenario.
Notwithstanding these challenges, the UK’s departure from the EU is equally an opportunity to look afresh at the future of the asset management industry more widely. As the second largest asset management centre in the world, much of the outcome will be dependent on the final configuration of delegation rules which enable savers and investors to choose the asset managers they want.

Like the UK, Switzerland is also a leading international centre for asset management. Swiss asset management constitutes one of the main pillars of Switzerland as a major financial centre.

The opportunities for both the UK and Switzerland in future multilateral trade liberalisation and regulatory cooperation agreements are key.

One of the key first steps is the Mutual Recognition of Funds (MRF) by the UK and Switzerland. Extension of the Swiss MRF scheme to UK funds with a reciprocal recognition by the UK would provide a significant benefit to both industries.

We share a common interest in ensuring that the global investment industry – a successful generator of growth for savers and investors – is not disrupted by potential spill-over issues from Brexit; and that decisions made concerning Brexit are viewed from an international rather than simply European perspective. It is important to ensure the future of a thriving asset management sector, capable of serving successfully both domestic and international clients.

UK – Swiss Investment Management Dialogue

The Investment Association (IA) and the Swiss Funds & Asset Management Association (SFAMA) instigated the UK-Swiss Asset Management Roundtable initiative to open a dialogue focused on the relationship between the UK and Switzerland post-Brexit. The October 2017 Roundtable brought together senior regulators, Government and C-suite industry representatives from Switzerland and the UK to advance this important discussion.

A number of objectives came out of the roundtable discussion to inform next steps. These objectives should help the two jurisdictions work together to protect and enhance their strong asset management industries.

To move the dialogue forwards, joint engagement is needed at three levels to achieve the shared UK-Swiss objectives for the future:

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**ANGLO – SWISS BILATERAL OBJECTIVES**

**EUROPEAN OBJECTIVES**

**GLOBAL OBJECTIVES**

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NURTURING UK-SWISS RELATIONS
NEXT STEPS

1. Anglo – Swiss Bilateral Objectives
   • Remove regulatory & market access obstacles
   • Foster the evolving & growing FinTech environment

2. European Objectives
   • UK priorities – shape the future relationship with the EU
   • Swiss issues – impact on UK relationship

3. Global Objectives
   • Drive international standards and foster global regulatory coherence
   • Seize emerging market opportunities
1.1 Remove Regulatory and Market Access Obstacles:

Outlined below are a series of specific recommendations for the removal of unnecessary regulatory roadblocks and obstacles to improve bilateral UK-Swiss market access:

1.1.1 Mutual recognition of funds and of services / market access. Asset managers would welcome an agreement between the UK and Switzerland on mutual recognition, similar to the agreement concluded between Hong Kong and Switzerland. Mutual recognition would ideally cover funds, asset managers and market access.

1.1.2 An equivalent Alternative Investment Fund Manager (AIFM) third country passport for the UK and Switzerland.

1.1.3 An agreement to ensure easiest possible movement of talent between Switzerland and the UK.

1.1.4 Calibration of the boundaries of reverse solicitation in the Swiss regulatory framework.

1.1.5 Assessment of the scope of the Unregulated Qualified Investors category. In particular the inclusion of large scale Swiss pension funds.

1.1.6 Streamlining regulatory reporting, both in trade and transaction reporting would be advantageous.

Achieving these bilateral objectives will bring significant benefits to the asset management industry in both jurisdictions and can potentially be achieved in a relatively short timeframe. It will be vital that the UK and Switzerland collaborate and offer bilateral market access on an even playing field.

1.2 Foster the Evolving & Growing FinTech Environment:

Shifting investor attitudes, the growth of financial technology solutions and intensifying global competition requires investment managers to be more innovative and adaptable in order to attract future investors. Clients are demanding a broader range of products, a more tailored service and far greater use of technology to give them more control over their investments.

Both the UK and Switzerland are already well placed to take advantage of these trends. But staying ahead of the global competition will require further innovative and collaborative work between industry, the UK and Swiss Governments and the regulatory authorities.

The active support of their respective Governments and regulators has enabled both the UK and Switzerland to foster a favourable environment for innovation and for the establishment of world-class FinTech ecosystems. We welcome the wide range of policy measures, including the FCA’s Project Innovate & regulatory sandbox initiatives, as well as the Swiss Federal Council’s new FinTech rules which have been very helpful in facilitating the attractiveness of the UK and Switzerland to FinTech investors.

Asset managers leveraging the FinTech advantage will be vital for accessing and serving new, digitally-enabled investors in growing overseas markets.

Proposals:

- Expansion of the ‘FinTech Bridge’ programme to encompass the UK & Switzerland – similar to what was negotiated by the UK Government with other countries (e.g. India).
- Accepting Swiss FinTechs into the FCA accelerator programme.
- Establish a joint industry led initiative on tackling cyber threat in asset management.
Learning from the Swiss Example

The example of Swiss relations with the EU provides a useful benchmark for future EU-UK relations. However, this relationship is the product of an extensive period of negotiation within the context of a far less politicised environment. It is unlikely the UK will be able to replicate the Swiss scenario in the current timeframe for exiting the EU. Instead, the UK must learn what it can from elements of the EU-Swiss relationship, for example, Switzerland’s intelligent and discerning approach to harmonisation with EU regulation.

The nature of the UK’s new relationship with the EU will be a major factor in shaping the future environment of the UK asset management industry. This new relationship must safeguard the interests of the savers and investors – in the UK and throughout the world – who make use of Europe’s pre-eminent investment management centre.

UK investment managers must be able to continue to manage investment portfolios in the EU after Brexit, by securing regulatory cooperation agreements with national regulators in the EU27.

Importance of a Global Asset Management Industry to the EU27

It is vital to create a constructive narrative to demonstrate (a) why asset management is important to the EU27 nations; and (b) why asset management is a global industry whose impact is felt far beyond national borders. The UK Government’s Asset Management Task Force will be at the forefront of these efforts.

UK-based asset management is important for European end investors, as 36% of Europe assets are managed from the UK, more than that managed from the next three largest countries combined.

Given its global context, the discussion of a future UK-EU trade and investment agreement also provides a once-in-a-generation opportunity for the UK to respond to emerging global trends, review national priorities, and re-think its policies from first principles, ensuring they remain fit for the challenges of the 21st Century.

Access to Talent

Asset management makes use of global talent. UK investment managers currently benefit from being able to attract staff from the EU and around the world, as well as from the UK’s world-class talent pool. Continuing to nurture domestic talent as well as bringing in specialist expertise from abroad will be vital in maintaining the UK’s ability to service end investors to an exceptional standard and maintain its competitive advantage in the future.

The UK hosts the largest US Asset Managers - who are currently using this country as a base and gateway to Europe. Therefore appropriate access to talent is very relevant to European investors and to the wider UK financial services industry. Asset management is a global industry and as such it is critical for the continued success of the UK that there is ongoing access to the best talent. The ability to recruit expertise from the EU27 and the rest of the world must be a key objective in any future relationship discussions with the EU.

In parallel growing the pipeline of domestic talent in the industry will be key to filling any gaps that occur as a result of Brexit.

2.2 Swiss Issues – Impact on the UK Relationship:

Currently, the Swiss bilateral agreements with the EU are the basis for financial services relations between Switzerland and the UK. When the UK leaves the EU, and in the absence of a comprehensive trade deal, these agreements will no longer apply. It is therefore critical that a cliff edge impact is avoided. As outlined above, the UK is an important trading partner for Switzerland.
In anticipation of the UK’s withdrawal from the EU, Switzerland will need to ensure that the existing trading relationship, rights and obligations framework will continue to hold up after the UK leaves the EU.

The Swiss “Mind the Gap” Strategy is seeking to address such holes in the new legal framework.

The asset management community in both Switzerland and the UK will need to feed into this work to ensure that a range of possible Brexit scenarios are catered for.

2.3 Future Swiss Relationship with the EU:

The European Commission issued a statement on 21 December 2017 regarding Switzerland’s regulatory equivalence to MiFID II which applied in the EU from 3 January 2018.

However this equivalence decision is not open ended and is time limited to one year (until 31 December 2018).

The introduction of such a time limit is a departure from the previous open ended approach and gives the EU greater leverage in the broader ongoing negotiation on Switzerland’s access to the single market.

In the context of Brexit, this decision sets a precedent on the EU27’s approach to relationship with third countries.
3.1 Drive International Standard And Foster Global Regulatory Coherence:

**Drive International Standards**

Members of the G20 (including Switzerland), together with the EU as well as some of the EU’s individual member states (including the UK) contribute to setting international standards for financial services. They work with bodies such as the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Basel Committee and the Financial Stability Board (FSB).

Elements of the regulatory regime that will apply in both the UK, Switzerland and EU after Brexit will be derived from globally agreed texts and recommendations. In the international arena, the UK and Switzerland should work together to foster global standards which propagate open markets and high standards of conduct.

The UK, Switzerland and the EU should consider in detail the different global standards that are available and determine whether or not to include adherence to them in any criteria for market access. They should also consider whether to enshrine in the EU-UK free trade agreement (FTA) the principle that the parties should seek to incorporate global standards into the agreement where appropriate or consider where global standards will be a factor indicating alignment.

**Maintaining the Global Business Model**

Global firms need access to global supply chains, offering customers the best of global specialist services and expertise with the protection of a robust regulatory framework embodied by the UK, Switzerland or EU27 regimes. The flexibility to delegate certain functions is key to the investment management industry’s success.

Asset management firms use global operations to access specialist expertise, which in turn drives returns for investors. Market silos created by regulatory barriers inhibits asset management firms’ ability to operate a trading and portfolio management in the most efficient way. UK and Swiss firms leverage such a global approach and its important this model is protected in the future.

3.2 Seize Emerging Markets Opportunities:

**To enhance its global competitiveness against the backdrop of Brexit, the investment management industry will need to capitalise on the major trends currently shaping the global investment landscape.**

Fuelled by a growing global middle class, worldwide assets under management are predicted to continue to rise – to approximately USD 100 trillion by 2020, at a compound annual growth rate of nearly 6%.

Demand for those assets is likely to strengthen as banks continue to deleverage and alternative sources of finance are sought. Combined with a growing preference among governments in developed countries to use the private sector to fund investments to fill the infrastructure gap, there is likely to be a rising demand for financing from capital markets.

As global wealth shifts it will not just be a case of deploying European clients’ wealth into investments within Emerging Markets Economies (EME) but also EME domestic wealth being drawn in and managed by UK and Swiss asset managers. In recent years, asset managers have become important players in emerging market economy (EME) asset markets. This shift has coincided with a prolonged period of very low interest rates in advanced economies, which has led investors to look for higher-yielding (but riskier or less liquid) assets in the search for greater returns.

As emerging market nations see their economies evolve from highly concentrated and resource-based to dynamic and diversified marketplaces, investment returns will be driven more by company and less by country selection.

Higher productivity growth, structural reform, an expanding middle class, urbanisation, and maturing capital markets all suggest the outlook for emerging market equities remains bright.

Such increased foreign investment in EME assets can boost investment and growth in EMEs and help develop their financial markets. This will have the additional benefit of driving standards in these jurisdictions.
CONCLUSIONS

Key Message:

Switzerland has had decades to organically grow its relationship with the EU into the form it has developed. By contrast, the UK has notionally less than 18 months to build an agreement. The UK must seek to take what lessons it can from the Swiss experience and apply them in a highly time-restricted scenario.

01 REMOVE MARKET ACCESS OBSTACLES

It will be vital that the UK and Switzerland collaborate to offer bilateral market access on a level playing field.

02 FOSTER THE FINTECH ENVIRONMENT

Asset managers must leverage the future FinTech opportunity. This will be vital for servicing new, digitally-enabled investors domestically and globally.

03 SHAPE THE RELATIONSHIP WITH THE EU

It is vital to create a constructive narrative to demonstrate why asset management is important to the EU27 nations; and why asset management is a global industry whose impact is felt far beyond national borders. The UK Government's Investment Management Strategy will be at the forefront of these efforts.

04 DRIVE INTERNATIONAL STANDARDS

Much of the future regulatory regime in the UK, Switzerland and the EU after Brexit will be derived from global standards. In the international arena, the UK and Switzerland should work together to foster global standards which propagate open markets and high standards of conduct.

05 SEIZE EMERGING MARKET OPPORTUNITIES

To enhance global competitiveness post Brexit, the investment management industry will need to capitalise on the growth in emerging markets. This is a significant and timely opportunity to ensure that the future market for asset management both inside and outside the EU is best positioned to manage the challenge of an ageing society, whilst eliminating disproportionate costs. Such efforts will build on a market which best serves the interests of end investors and bolsters a financially stable society for ordinary people in the UK, Switzerland and across Europe.

The Investment Association will take forward the agreed outcomes from the roundtable to support the UK and Switzerland working together to enhance the asset management industry relationship.

“As one of the UK’s principal non-EU trading partners, and in the light of Brexit, it is vital we work together to support the important partnership with Switzerland.”