SwissHoldings

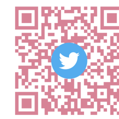
SwissHoldings Update

July 2023

Overview (Clickable Titles)

Law Department **2**
Competition Law 2
Revision of the Cartel Act 2
Foreign Subsidies Regulation (FSR) 3
Corporate and Capital Markets Law 4
Regulation of Beneficial Owners of Legal Entities 4
Regulation of Loyalty Shares 5
Possible Regulation in Stock Corporation Law- Implications of the Crédit Suisse Case 5
Revision of the Financial Market Infrastructure Act 6
Future Proxy Advisor Regulation Template 7
Tax Department **8**
OECD/G20 Project on Taxation of the Digitalized Economy 8
Department of Economics **13**
Trade and Investment Policy 13
Bilateral Relations Switzerland / EU 13
Free Trade Agreement 14
Investment Controls 15
Investment Protection Agreement (ISA) 16
Corporate Social Responsibility 16
Corporate Responsibility Initiative 16
Developments EU Level 17
Collective Legal Protection 18
Accounting and Reporting 19
IFRS Standard Setting 19
Sustainable Finance Switzerland Strategy 19
Sustainable Finance & ESG Reporting at EU Level 21
Capital Markets 22
Monetary Policy SNB 22

SwissHoldings



Law Department

Competition Law

Revision of the Cartel Act

<table>
<tr>
<td>Current Status & Outlook</td>
<td>
The Consultation on the Revision of the Cartel Act:
On November 24, 2021, the Federal Council opened a consultation on the partial revision of the Cartel Act (KG). The corresponding preliminary draft proposed various changes regarding merger control. Specifically, it involved a change from the current Qualified Market Dominance test to the Significant Impediment to Effective Competition test (SIEC test). Additionally, regulations in the area of Civil Antitrust Law were added, and the preliminary draft included changes in the area of opposition proceedings. The Federal Council also incorporated two demands from the current Qualified Market Dominance test to the Significant Impediment to Effective Competition test (SIEC test). One of these demands was Motion 16.4094 Fournier, which aimed to improve the situation of SMEs in competition proceedings by introducing deadlines and party compensation for the first instance proceedings before the Competition Commission. Finally, the preliminary draft included a proposal for implementing the Motion Français, adopted in June 2021: “the revision of the Cartel Act must consider both qualitative and quantitative criteria to assess the inadmissibility of a competition agreement.” (link media release and consultation documents).
SwissHoldings participated in the consultation (link consultation response) and positioned itself as follows:

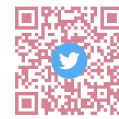
The bill needs to be substantially revised because important elements, namely the inclusion of an institutional reform and the consideration of compliance efforts in the assessment of sanctions, are missing. These must find their way into the revision work.
Regarding institutional reform, the goals of the institutional reform considered in 2012 are to be pursued. This relates in particular to a necessary improvement in the rule of law through the separation of investigation and decision-making.
The consideration of compliance efforts in the assessment of sanctions could, for example, be included in the Cartel Act by way of an addition to Art. 49a para. 5 VE-KG and be structured similarly to the regulation in Germany.
In SwissHoldings' view, the introduction of the proposed elements in the preliminary draft - with the exception of the important implementation of the Motion Français - has a subordinate role compared to the inclusion of institutional reform and the consideration of compliance efforts.

</td>
</tr>
</table>

	A Proposal for Institutional Reform and a Bill for a Minor Revision of the Antitrust Law: On March 17, 2023, the Federal Council instructed the Federal Department of Economic Affairs, Education and Research (EAER) to submit a dispatch on the partial revision of the Cartel Act (KG) by mid-2023, which was completed on May 24, 2023 (see link to media release incl. dispatch and draft). Furthermore, the Federal Council has instructed the EAER to submit a concrete proposal for institutional reform to the Federal Council in parallel during the first quarter of 2024 (link to media release and documents). **SwissHoldings very much welcomes the fact that institutional reform, as one of our central concerns, will now become part of the revision work. We have been advocating for** a so-called court model**,** if possible, to be chosen for institutional reform. The association is currently studying the draft of the minor revision of the Cartel Act in detail and is in the process of formulating its position.

Foreign Subsidies Regulation (FSR)

Current Status & Outlook	On January 12, 2023, the **new EU Foreign Subsidies Regulation (FSR) entered into force** and it will take effect from July 12, 2023. From early February to early March, the European Commission also published its draft implementing regulation and conducted a public consultation. The final implementing regulation is expected to be adopted by the end of June 2023. The primary objective for the regulation is to avoid distortions in the EU market caused by public subsidies from third countries. The regulation aims to transfer the existing state aid control, which applies solely to subsidies from EU member states, to subsidies from non-EU countries. Whereby empowering the European Commission as the sole enforcer with investigative tools such as (new reporting obligations and investigative powers). Nevertheless, the regulation in its current official format is extremely problematic for companies. As it is currently constituted, it is practically impossible to implement. In particular, it should be noted that the information that may fall within the scope of the regulation goes beyond the information required for any other regulatory investigation. Accordingly, SwissHoldings, in coordination with other associations and organizations at the European level, have been and continues to be committed to finding a better and more practicable solution here as quickly as possible. **It is possible that the implementing ordinance will provide a more practicable solution in some cases**. However, it is now necessary to wait for the **publication, which, as mentioned above, is expected to** take place at the **end of June** 2023.

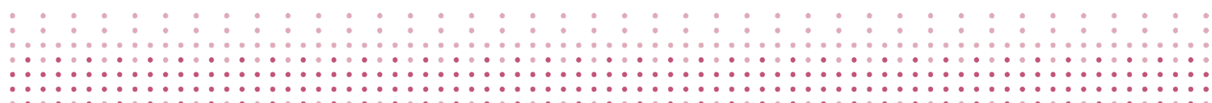


SwissHoldings

Corporate and Capital Markets Law

Regulation of Beneficial Owners of Legal Entities

Current Status & Outlook	In the future, as has been the case in the past, there will be regulatory efforts in connection with the **recommendations of the "Global Forum on Transparency and Exchange of Information for Tax Purposes" and the "Financial Action Task Force on Money Laundering (FATF)" within** Stock Corporation Law. Switzerland regulates here, in each case, within National Law to comply with these recommendations and adapts its national legislation, should the international entities mentioned (substantially) revise their recommendations. In these areas, SwissHoldings' general concern is to ensure that Switzerland is not blacklisted by such entities because it does not sufficiently implement their recommendations. At the same time, unnecessary restrictions on the freedom of action, as well as unnecessary bureaucracy for the (listed) companies must be avoided. At the moment, the **following developments** should be mentioned **in particular:** - **Postulate 19.3634 and status report Global Forum (link Postulate)**: The postulate requires that the Federal Council submit a status report by the end of 2021 on the implementation of Bill 18.082, which is focused on implementing the recommendations of the "Global Forum on transparency and exchange of information for tax purposes." If necessary, the Federal Council must provide proposals for amendments. The Federal Council has now published the status report on December 3, 2021 (link status report). The report notes that international developments at the FATF, EU, and OECD levels indicate a trend towards further tightening of corporate transparency obligations. In light of this, Switzerland will analyze its national legislative bases and their effectiveness to implement appropriate options in line with the objective of the Federal Council's financial market policy in the area of integrity and international positioning. - **Revision of FATF Recommendation 24 on transparency and beneficial owners of legal entities**: This mainly concerns the topic of beneficial owners and the introduction of a central register or an alternative mechanism for beneficial owners, as well as possible tightening of bearer shares. The revision of Recommendation 24 at the international level has been ongoing for some time. The FATF officially adopted the revised Recommendation on March 4, 2022 and held two public consultations on it in the summer and winter of 2021, in each of which SwissHoldings participated (for our position, see detailed link Opinion). It also updated its guidance in March 2023, which is intended to help countries implement the revised Recommendation 24 (link Guidance). The update was preceded by many months of intensive consultations with the private sector and external stakeholders, in which SwissHoldings was always involved. - Following the adoption of Recommendation 24 at the international level, **work** is now underway **at the national level** to implement the recommendations. In the fall of 2022, the Federal Council instructed the Federal Department of Finance (FDF), in collaboration with the Federal Department of Justice (FDJP), to draft a bill by the end of June 2023 to facilitate the identification of beneficial owners of legal entities (link media release). According to the media release, the bill



	will in particular introduce a central register for the identification of beneficial owners and new obligations for the risk-based updating of information on effective beneficial owners. In order to achieve the most efficient and administratively simple implementation possible, especially for listed companies, SwissHoldings became involved in the legislative process at an early stage and will also participate in the consultation process, which, as mentioned above, should be opened shortly.

Regulation of Loyalty Shares

Current Status & Outlook	During the revision of the Stock Corporation Law, the implementation of loyalty shares was discussed, but ultimately, it was not included in the revised law. Instead, the Council of States presented a postulate that instructed the Federal Council to prepare a report on the proposed regulation, including its possible advantages, disadvantages, and effects discussed in the revision of Stock Corporation Law. The report was also requested to present a comparative legal analysis of the possible implementation variants and to determine if there is a need for action in Swiss Stock Corporation Law. (cf. in detail link postulate). In response to the postulate, the Federal Council published its report on February 15, 2023, recommending against the introduction of loyalty shares (link media release and documents)The Federal Council based its opinion on the reports of two experts, whom it commissioned to prepare a legal clarification and a regulatory impact assessment to fulfill the postulate. The experts concluded that the introduction of loyalty shares is not recommended, or not without reservation. The postulate, or rather the report, is now still on the agenda for the Committee for Legal Affairs of the Council of States on June 26. During one of the expert clarifications, SwissHoldings was asked about the possible introduction of loyalty shares and responded that there is hardly any need for it on the part of companies, and therefore no action is necessary. In light of this, we support the Federal Council's position to maintain the status quo and refrain from introducing the possibility to create loyalty shares.

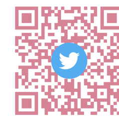
Possible Regulation in Stock Corporation Law- Implications of the Crédit Suisse Case

Current Status & Outlook	**Following the Crédit Suisse case, various motions were submitted in April.** The **Motion Chiesa 23.3448** "Systemically important companies. Ensure decisions in the interest of Switzerland" and **Motion Noser 23.3495** "Regulation on variable compensation" go beyond the regulation of financial institutions and **directly concern Stock Corporation Law, including for non-financial companies.** According to the Chiesa Motion, the Federal Council should be instructed to take appropriate measures to ensure that the boards of directors within systemically important companies make decisions in the interests of the Swiss economy as a whole. The following requirement should apply: The majority of board members of companies defined as systemically important must hold Swiss citizenship and be a resident in Switzerland.

	According to the Noser Motion, Stock Corporation Law should be amended as follows: The variable part of the compensation of all employees, which the Board of Directors can decide on in its own authority, may not exceed 15 percent of the reported net profit. If the Board of Directors wishes to increase the total variable compensation, it must propose and justify this at the Annual General Meeting. In particular, it must transparently explain how the higher amount is allocated to the various levels of employees. In the case of systemically important companies, the major part of the variable compensation must be deferred over the long term, and in a graduated manner. This deferral should be at least 3 years for lower management, and then increased in steps up to executive management, where it must be at least 10 years. In the event of a restructuring, all deferred variable compensation that has been deferred for longer than 3 years shall be forfeited. The Federal Council proposes that the motions be rejected. The motions were already submitted to the Council of States in the summer session. It referred both motions by motion of order - together with many other motions submitted as a result of the Crédit Suisse case - to the responsible committee for preliminary discussion. SwissHoldings opposes the motions and recommends their rejection. The Crédit Suisse case should now be dealt with and the real economy with its well-functioning service and industrial companies should not be burdened with additional regulation in an overhasty and excessive manner. The two proposals, especially as far as they affect the real economy (via Stock Corporation Law), are unnecessary and it should be avoided to revise the Stock Corporation Law again after it has just been completely revised. Finally, it should be noted that there are no systemically important companies, but only systemically important banks, which are rightly regulated by special legislation (see the SwissHoldings session ticker under the following link for more details on the SwissHoldings position). **Accordingly, SwissHoldings welcomes the fact that the National Council has not adopted the motions (at least for the time being), but has assigned them to the pre-consultative committee for preliminary discussion** and will continue to oppose the motions.

Revision of the Financial Market Infrastructure Act

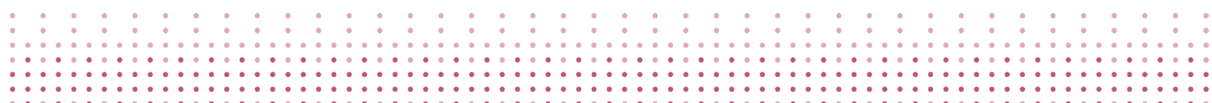
Current Status & Outlook	The Financial Market Infrastructure Act FinfraG regulates the licensing and obligations of financial infrastructures. In addition to the conduct obligations of financial market participants in securities and derivatives trading. Even before it came into effect in January 2016, the Federal Council announced that the Federal Department of Finance (FDF) was to subject the FinfraG to a general review and draw up a report. Based on this report, the Federal Council instructed the FDF at the end of September 2022 to prepare **a consultation draft on the revision of the FMIA by mid-2024** (link media release and documents). In its report, the FDF concludes that the FinfraG has largely proven its worth since it was ushered into effect. However, transparency and legal certainty are to be further strengthened in certain regulatory areas. Furthermore, the Federal Council has decided to implement the reporting obligation of small non-financial counterparties regarding derivatives transactions as of the 1st of January 2028.

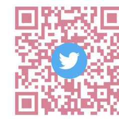


	SwissHoldings positions itself as follows: The proposed adjustments to derivatives regulation are fundamentally an improvement and therefore are to be welcomed. However, we clearly reject the idea that ad hoc notifications of shareholdings should be transferred from self-regulation to state regulation under the supervision of FINMA. Self-regulation has proven its worth, it should not be abandoned without good cause and should instead be retained as a locational advantage. With this in mind, SwissHoldings is involved in the legislative process at an early stage and will advocate for the interests of its members.

Future Proxy Advisor Regulation Template

Current Status & Outlook	In the course of the deliberations on the revision of the Stock Corporation Act (and also already in the course of the revision of the SIX Directive on Information Relating to Corporate Governance), parliamentarians repeatedly discussed a provision that wanted to regulate proxy advisors. The regulation under discussion wanted to regulate proxy advisors via transparency obligations for issuers. SwissHoldings opposed the regulation under discussion at that time because it would have meant that one wanted to regulate (definitely existing problems in connection with proxy advisors) via a selective regulation "on the hump of the issuers/companies". In the end, the provision was not included in the revision of the Stock Corporation Act, which we very much welcome. In response, Motion 19.4122 (cf. link) was adopted with the following wording: "The Federal Council is instructed to submit an amendment to the law (e.g. the Financial Market Infrastructure Act) in order to disclose and avoid conflicts of interest with proxy advisors at listed stock corporations. In doing so, it takes into account international developments." It contains no reference, or at least no explicit reference, to regulating via duties of issuers. We welcome this omission of these references. The corresponding revision of the law is likely to come soon. SwissHoldings is monitoring the international developments and will closely accompany the revision work in Switzerland.

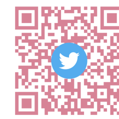




Tax Department

OECD/G20 Project on Taxation of the Digitalized Economy

Current Status	The project for taxing the digitalized economy is based on two Pillars, intended to improve the acceptance of international corporate taxation. Pillar 1 provides for the largest international corporations, numbering around 100, to pay a higher proportion of their profits in the countries where they sell their products. The focus is on digital corporations, such as Google, Facebook, and Apple, some of which pay hardly any tax on profits in their home countries. However, a large number of traditional industrial companies are also affected, as they already pay high taxes in their home countries, with corporate tax rates of 25 to 30 percent. Project Pillar 2, the OECD minimum tax, requires large companies (with a minimum of EUR 750 million in sales) to pay at least 15 percent tax on their profits in all their countries of operation, using country-by-country blending. The determination of profits is not based on the strongly diverging tax regulations of individual countries, but on international accounting standards (e.g., IFRS, US GAAP, etc.), as the differences in the determination of profits are much smaller in these due to the so-called "true and fair view principle." Additionally, the new international set of rules (called GloBE rules) provides for various corrections, such as for investments or deferred taxes. If a state does not implement the new minimum taxation rules, the state of the parent company or subsidiaries, as the case may be, may tax the difference between the effective tax rate and the minimum tax rate reported by the company for a particular state. The work on the project to tax the digitized economy is being carried out by the OECD Secretariat on behalf of the G7 and G20, with administrative representatives of the involved countries involved in the development of the new rules. The new tax rules will be formally adopted by the "OECD/G20 Inclusive Framework on BEPS" (IF), comprising around 140 countries. On October 7-8, 2021, 136 of 140 IF countries adopted a statement with policy parameters on the two Pillars (IF Statement). These were officially endorsed by the G20 Finance Ministers on October 14, 2021. We have reported on the exact parameters in past updates (link past updates). Pillar 2 (OECD minimum tax) In December 2021, the Pillar 2 Model Rules were published (Link Model Rules). In mid-March 2022, the Commentary to the GloBE Model Rules was published (Link Commentary GloBE Rules). As there are still a large number of open application questions, detailed technical specifications are to be issued by the so-called Implementation Framework as part of the Administrative Guidance. A first part of these guidelines was published in December 2022 and February 2023 (link Administrative Guidance). Of particular importance were the requirements for the transitional safe harbors, which should somewhat reduce the enormous administrative burden on the companies concerned in the initial years (2024 - 2026). However, many



important specifications are still outstanding and are not expected to be complete until late into 2023. Both the tax administrations of the numerous countries and the many affected companies are eagerly awaiting the issuance of all the promised documents.

In 2022 and early 2023, intensive work was also carried out on Pillar 1 and a public consultation was held on the implementation plans, which are not yet complete (Progress Report on Amount A). From the company's point of view, some of the plans appear to be difficult to implement and a lot of work will still have to be done by the OECD; so that a finished Pillar 1 implementation package can actually be presented to the countries at the end of May in the form of a multilateral convention for signing (from July 2023) and subsequent ratification. For Pillar 1 to be implemented globally at all, a critical mass of countries must ratify the multilateral convention. The deciding factor will be whether the U.S. decides to ratify the convention. Half of the companies affected by Pillar 1 have their headquarters in the USA. Without US ratification, the planned redistribution from headquarters to market states cannot be implemented. Ratification requires a 2/3 majority in the US Senate. However, there is strong opposition from both Republicans and Democrats. Experts, therefore, believe that Pillar 1 will never find a political majority in the USA.

Minimum Tax Developments in the USA

After the publication of the additional guidance on the OECD model rules in February 2023 and the US House of Representatives changing to a Republican majority after the midterm elections in fall 2022, the negative rhetoric against Pillar 2 has increased in the US. In particular, concerns over the UTPR have become a key point of criticism, with Republican House and Senate members issuing several letters and op-eds calling for a significant overhaul of the UTPR mechanism and threatening retaliation if those changes do not happen. In May, every Republican on the House tax-writing committee released legislation that would impose additional tax on individuals and companies residing in countries that implement the UTPR. House Republicans have also proposed to completely eliminate OECD funding due to their involvement in crafting the problematic Pillar Two rules as part of their Fiscal Year 2023-2024 government spending legislation. It remains unlikely that this retaliatory legislation or a complete elimination of OECD funding will pass this Congress, but it forbodes what could happen if a Republicans were to win a majority in both chambers of Congress and the Presidency in the 2024 US elections. Currently, there are clear tensions with the Democrat administration which negotiates in the OECD discussions.

Adding to those tensions over the UTPR, the Congressional Joint Committee on Taxation calculated the impact of Pillar Two under various scenarios and showed that if all remaining Inclusive Framework countries enacted the Pillar Two rules in 2024 while the US enacted in 2025 (the most likely timeframe for US action), there would be revenue losses of nearly $60 billion over a 10-year period for the US. The Joint Committee also made clear that those revenue losses could be more than double that amount if the US did not enact every element of Pillar Two or if the US tried to replace existing elements of their tax code such as the Corporate Alternative Minimum Tax (CAMT) or the Base Erosion and Anti-Abuse Tax (BEAT) with the overlapping policies from Pillar Two. Congressional Republicans, and potentially even some Congressional Democrats, took this official revenue estimate from the Joint Committee as another sign that the U.S. Treasury negotiated poorly at the OECD over Pillar Two, managing to give away a sizable portion of the U.S. tax base as a result

of these policies. This revenue loss may embolden Congress in seeking further changes or delays to the Pillar Two rules.

Minimum Tax Developments in the EU

Not only in the USA, but also in the EU, the project to tax the digitized economy struggled with political difficulties until late fall 2022. For example, as recently as the beginning of December, Hungary opposed the ratification of the EU directive on minimum taxation, which must be approved by all EU member states. However, the EU Commission succeeded in partially resolving differences of opinion with Hungary as part of an overall solution to various proposals. Thereafter, the directive on minimum taxation could be unanimously adopted by written procedure on December 15, 2022 (link media release). Thus, the 27 EU member states have committed themselves to implement the OECD minimum taxation at the beginning of 2024. This example will probably be followed by a large number of other industrialized countries (e.g. UK, Canada, Japan, Korea) and other states. Despite the aforementioned problems in the USA, it should therefore be assumed that the OECD minimum taxation will be implemented by the vast majority of important jurisdictions at the beginning of 2024.

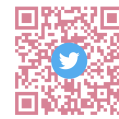
Implementation in Switzerland:

On January 12, 2022, the Federal Council decided how it wants to implement the rules of the OECD digital taxation. The proposal was to amend the Federal Constitution to include a competence standard for both Pillar 1 and Pillar 2 of the OECD project. To enable the implementation of the OECD minimum taxation (pillar 2) quickly in the interests of the treasury and companies, transitional provisions are to be enacted in the constitution. Based on these, the Federal Council will adopt a directly applicable transitional ordinance that will apply throughout Switzerland from January 1, 2024. The ordinance will be replaced later by a Federal law as part of the ordinary legislative procedure.

In June 2022, the Federal Council adopted the dispatch on the constitutional amendment to Parliament. In contrast to the consultation draft, the dispatch provided for 25 percent of the supplementary tax revenue to go to the Confederation. This was in line with a corresponding compromise decision by the Conference of Cantonal Finance Directors. The FTA estimated the amount of the supplementary taxes at between CHF 1 billion and CHF 2.5 billion, but it correctly pointed out on several occasions that the estimate was highly uncertain.

The provisional distribution of the supplementary taxes between the cantons and the Confederation provided for in the transitional provisions was mainly disputed in the Federal Councils. While the Council of States opted for a 75/25 percent distribution, the National Council initially decided on a 50/50 distribution. However, this was corrected during the differences revision, which also took place in the winter session. On December 6, 2022, a majority of the National Council also opted for the 75/25 distribution. The bill was then submitted to Swiss voters on June 18, 2023, after the final vote took place on December 16, 2022. How the cantons use any additional revenue from the supplementary tax will be determined at a later date, depending on the level of expected revenue and the cantonal targets. More clarity on the actual revenues will likely only be available in the course of 2025.

In parallel to the constitutional vote, the Federal Council is pressing ahead with the enactment of the Federal Council Ordinance on the Implementation of the OECD Minimum Tax. Since important procedural and implementation regulations have yet to be determined by the OECD's Implementation



	Framework, the consultation on the ordinance will be conducted in stages. In August 2022, the Federal Council presented the first draft ordinance, which is currently limited to two areas. To rule out differences in the Swiss implementation of the GloBE rules, the ordinance contains a direct reference to the OECD's Pillar 2 model rules. Additionally, the draft ordinance regulates the distribution of supplementary tax revenues between cantons according to the source. The tax revenues from the Swiss supplementary tax are to be allocated to the cantons whose companies or business units have paid the supplementary tax. The Federal Council is expected to present the second partial draft of the ordinance in May 2023. Due to delays in the Implementation Framework, a third partial draft may also be necessary. The second draft ordinance will contain important procedural provisions in particular. If the constitutional amendment is approved by Swiss voters on June 18, the final and complete Federal Council Ordinance should be issued towards the end of 2023 and enter into effect on January 1, 2024.
Outlook	With the endorsement of the IF Statement by a vast number of countries in October 2021. The publication of the GloBE Model Rules, Commentary, and other implementation documents of the Implementation Framework expected in 2023; as well as the implementation laws at the decision-making stage in many countries, it is clear that the OECD minimum tax will be introduced by a large number of countries from 2024. The situation is currently exactly the opposite for Pillar 1. While the technical work will soon be completed and the IF is expected to present and adopt the multilateral convention in July '23, ratification by the U.S. seems politically unlikely in the foreseeable future. The EU, Switzerland and even the USA are likely to sign the multilateral convention. Without ratification by the USA, however, the convention cannot enter into force and redistribution can begin. Assessment of the Consequences for Switzerland and Further Action: Effects of Pillar 1: The requirements of the OECD digital taxation project are not in Switzerland's interest. For instance, Pillar 1 envisages shifting the taxation of profits from large, profitable groups to the sales states. Those group companies that generate particularly high residual profits are to surrender the earnings. Switzerland is a business location where Swiss and foreign companies carry out activities with particularly high added value and generate high residual profits. Consequently, Switzerland will have to surrender significantly more tax substrate from domestic and foreign companies than other industrialized countries. At the same time, Switzerland is an insignificant sales market in global terms. Therefore, Switzerland will not be able to compensate for the aforementioned revenue shortfall with the new tax substrate that it receives as a market state. Overall, Switzerland would be one of the losers in Pillar 1. Effects of Pillar 2: The situation is similar for Pillar 2 (minimum taxation). Low taxes on profits are an important reason why international companies carry out activities with high value added and high profits in Switzerland. The low taxes partially compensate for the very high Swiss wages in international comparison. If Switzerland has to increase its profit taxes to 15% due to the minimum tax, and other countries also succeed in reaching the OECD minimum tax rate of 15% with OECD-compliant tax measures (e.g., patent box), Switzerland will lose the critical location advantage of taxes. If other countries also have lower wages and other costs than Switzerland and grant non-fiscal incentives, Switzerland will have a much harder time competing internationally as a business location in the future. Particularly lucrative and

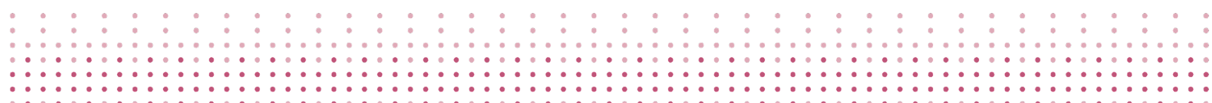
value-added activities (research, management, and other so-called principal functions) are at risk. These activities are particularly profitable not only for corporate profit taxes but also for personal income taxes (taxation of employees) and social security revenues (AHV, etc.).

Therefore, tax incentives for research should be adapted to meet the new international requirements. Permissible according to the OECD guidelines is an R&D promotion that provides for a reduction of the tax amount and is independent of the amount of profit taxes (Art. 4.1.3 resp. definition "Qualified Refundable Tax Credit in Art. 10.1 of the Model Rules). To ensure that Switzerland does not lose ground internationally in terms of tax incentives for research, it is advisable to examine OECD-compliant research incentives in detail. Switzerland can learn a lot from other countries where such research promotion is common practice, such as (France, Austria, UK, etc.). At the same time, the cantons should use their funds in a more focused and budgetary manner. The goal of research promotion is to attract attractive business activities that are associated with high profits and tax revenues. In doing so, the cantons should not require companies to carry out all R&D&I activities in Switzerland, which is expensive in terms of wages. It is much more important that the central management activities are carried out here and that the intangible assets are located in Switzerland. In addition to R&D&I, the cantons will have to examine whether they want to specifically promote other activities with high added value. As long as they find internationally admissible instruments for this, which needs to be targeted, the cantons are economical with their funds and additional revenues result; such instruments should be seriously examined.

The OECD minimum taxation will lead to a paradigm shift in the location competition between countries for the most profitable corporate functions. The profit tax factor will lose importance and tax competition will decrease. Numerous cantons will thus partially or largely lose one of their most important locational advantages. In financial terms, the biggest losers - without countermeasures - are likely to be the cantons of Zug and Basel-Stadt. However, more rural cantons are also at risk, as the loss of taxes as a location factor is likely to be particularly drastic for these cantons. The Canton of Zurich is likely to become more attractive, thanks in particular to the Federally funded ETH. Immigration pressure to attractive urban centers such as Zurich or Lausanne is likely to increase without countermeasures by rural cantons. Therefore, the vast majority of cantons will have to rely on supplementary tax revenues to restore their attractiveness to their best taxpayers and employers elsewhere. If the cantons succeed in this, profit tax revenues will continue to bubble up in the future. Financially, the biggest beneficiary of successful cantons will continue to be the Federal Government.

In general, the following aspects are central to Swiss implementation:

- International acceptance
- Simple legislative and administrative implementation
- Securing the attractiveness of the cantons as business locations
- Compliance with international timelines
- High flexibility
- Recognition of minimum taxation, particularly from a U.S. tax perspective



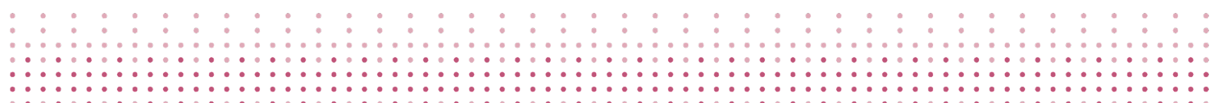
SwissHoldings

Department of Economics

Trade and Investment Policy

Bilateral Relations Switzerland / EU

Current Status	The European Union (EU) is by far Switzerland's most important trading partner. Simultaneously, Switzerland is also one of the EU's largest export and import markets. Therefore, the relationship between Switzerland and the EU is crucial for the Swiss economy. Switzerland is pursuing a bilateral approach in this regard. Beginning with the free trade agreement signed in 1972, Switzerland has established a dense and ever-evolving network of agreements with the association of states. The Bilateral I and II agreements are particularly noteworthy as they grant the contracting parties non-discriminatory access to each other's markets and establish close cooperation in various areas between Switzerland and the EU. This bilateral approach has brought numerous advantages to Switzerland. However, the EU has linked the further development of the agreement network to a clarification of the institutional framework. Based on this demand, a draft agreement was drawn up between 2014 and 2018. At its meeting on May 26, 2021, the Federal Council decided not to sign the institutional framework agreement and to end negotiations with the EU. The body believes that various substantial differences could not be resolved. Nevertheless, the Federal Council wants to continue bilateral cooperation. Two years after the failure of the Framework Agreement, the Federal Council decided in the spring to make a new attempt to clarify the relationship with the EU. The reason given for this was that the body had noted a positive dynamic at the technical, diplomatic and political levels in the exploratory talks with the EU that had been underway since the end of February last year. The administration was therefore instructed by the body to draw up the key parameters of a negotiating mandate by the end of June and to take soundings with the European Union. The package approach proposed by the Federal Council will continue to serve as the basis for the talks: instead of a single agreement of a horizontal nature regulating institutional issues (such as the adoption of laws, monitoring, dispute settlement), an entire package of new concrete agreements (including electricity, food safety and health) is to be drawn up. The existing and new single market agreements should each include solutions to the institutional issues in their area. The aim is to enable a broad balance of interests with this approach and to increase the chances of success in any subsequent negotiations. On June 21, the Federal Council has now approved the key parameters for a negotiating mandate between Switzerland and the EU. They form the basis for further talks with the EU, in particular to settle the outstanding points. If the talks with the EU and the internal work continue to progress well, the Federal Council will prepare to adopt a negotiating mandate by the end of the year.
Outlook	Orderly and secure relations between the European Union and Switzerland

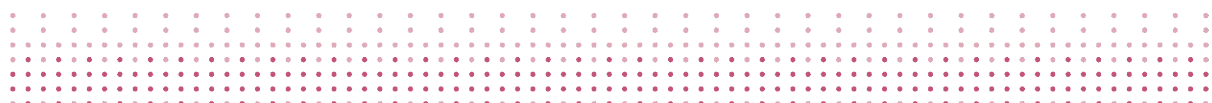


SwissHoldings

	are essential for both sides. For the foreseeable future, the EU member states will remain extremely important trading partners for the strongly export-oriented Swiss economy for the foreseeable future. It must therefore remain a priority goal that the bilateral path can be successfully preserved. SwissHoldings welcomes the fact that the Federal Council is endeavoring to ensure that the bilateral agreements are applied as smoothly as possible, even without the conclusion of the InstA. From the association's point of view, it is also important to exhaust all possibilities that Switzerland can implement unilaterally to strengthen the framework conditions, in order to ensure the competitiveness of our country.

Free Trade Agreement

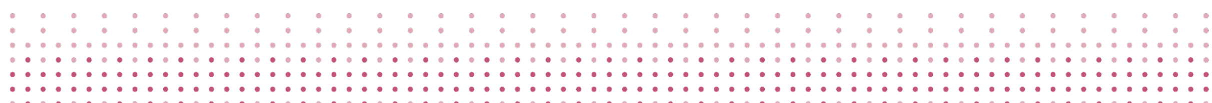
Current Status	The Swiss Economy has a strong global orientation and is therefore dependent on cross-border trade and international investment activities. Thus, the constant improvement of access to foreign markets was and is a focus of Swiss foreign policy. Amongst other channels, this is accomplished through free trade agreements with third parties. In addition to the EFTA Convention and the free trade agreement with the European Union (EU), Switzerland has a network of 33 free trade agreements with 43 partners worldwide. Therefore, in association with the other EFTA states, Switzerland is currently negotiating free trade agreements with seven new partner states: namely India, Kosovo, Malaysia, Mercosur, Moldova, Thailand and Vietnam, as well as the modernization of various existing agreements.
Outlook	Especially against the backdrop of trade conflicts, the blockade of the World Trade Organization (WTO), growing protectionism and the expansion of free trade agreements. Maintaining free trade is very important for the export-oriented Swiss economy and the member companies of SwissHoldings. Concerns are being increasingly expressed regarding sustainable development in connection with global trade. Of course, SwissHoldings recognizes and supports the claim that sustainability aspects are deservedly taken into account within the considerations of free trade agreements. The chapter on "Sustainability and Trade" provides a solid foundation for promoting sustainable development. Moreover, it should not be neglected that intensified trade relations are an important factor in promoting sustainable development. SwissHoldings will continue to advocate for the important expansion of the Swiss network of free trade agreements.



SwissHoldings

Investment Controls

Current Status	The introduction of investment controls is also currently being discussed in Switzerland. On May 18, 2022, the Federal Council published the preliminary draft of a new Investment Control Law and submitted it for consultation. Prior to this, Parliament had called for a corresponding legal basis by adopting Motion 18.3021 Rieder. The proposal is to introduce a reporting and approval requirement for certain acquisitions of domestic companies The Federal Council presented a regulatory impact assessment on the preliminary draft as part of the consultation process. The RIA concludes that the cost-benefit ratio of such a new law is unfavorable. Consequently, the panel continues to oppose the introduction of an investment audit. It considers the existing legal framework to be sufficient. SwissHoldings participated in the consultation (link Opinion) and essentially stated: – Foreign direct investment is central to Switzerland. In the small and open Swiss economy, the prosperity of the population and the competitiveness of companies depend directly on integration into global value chains. – Since Swiss companies themselves are among the largest direct investors abroad, Switzerland has a particular interest in accessing international investment markets as non-discriminatory and transparent as possible. Switzerland is most likely to achieve this if it shows itself to be open to foreign investment. – The Federal Council presented a Regulatory Impact Assessment (RFA) on the preliminary draft as part of the consultation process. The RIA concludes that the cost-benefit ratio of such a new law is unfavorable: for this reason, the panel remains opposed to the introduction of an investment audit. It considers the existing legal framework to be sufficient. SwissHoldings supports this position. – However, the question of whether Switzerland should introduce an investment audit cannot be assessed in isolation from international developments. If OECD member states introduce restrictions on certain foreign investments across the board, then this must be taken into account when assessing the Swiss regulatory approach - not least to prevent a pull effect being triggered on the Swiss economy. – In this context, the present draft represents a compromise. In order to keep the legal risks for the economy as small as possible, such a state intervention mechanism should be examined in the context of a targeted, administratively lean and transparent design. It is also important that the regulation is compatible with Switzerland's existing obligations under International Law.
Outlook	The Federal Council is currently in the process of preparing a draft law for the introduction of investment controls and will submit this to parliamentary consultations in the current year. The law is not expected to enter into force before 2024.



Investment Protection Agreement (ISA)

Current Status	Switzerland has a network of a total of 111 bilateral investment protection agreements (ISA). According to UNCTAD, Switzerland thus has the third-largest network of such agreements in the world after Germany and China. By concluding ISAs, Switzerland improves the framework conditions and thus its attractiveness as a location for international investments. Due to a change in practice by the Federal Council, ISAs are now subject to an optional state treaty referendum in addition to free trade agreements. The first ISA to be subject to consultation is the new ISA with Indonesia. The agreement closes the gap in the treaty that has existed since the previous agreement expired in 2016.
Outlook	SwissHoldings will continue to closely follow the regulatory developments around the investment agreements and in this context will point out the great importance of ISA and international arbitration for Swiss companies and Switzerland as a business location.

Corporate Social Responsibility

Corporate Responsibility Initiative

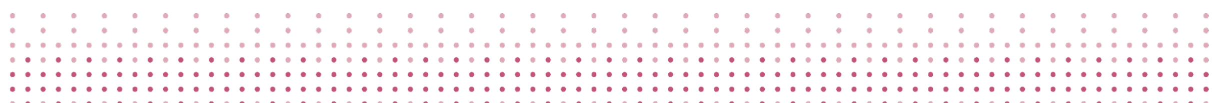
Current Status	The popular initiative was rejected at the ballot box on November 29, 2020, paving the way for the indirect counter-proposal's entry into force. The Federal Council presented the ordinance on the indirect counter-proposal on December 3, 2021, which imposed new obligations based on EU regulations and, in some cases, went beyond them. The law took effect on January 1, 2022, meaning that Swiss companies would have to report in accordance with the new rules for the first time for the 2023 financial year. On November 23, 2022, at its meeting, the Federal Council adopted the executive order on climate reporting ("TCFD") for large Swiss companies and brought it into effect on January 1, 2024. Further information and the preprint of the ordinance can be found here. In addition, the Federal Council has evaluated the extent to which there is a need for Switzerland to adapt; as a result of the dynamic developments in EU Law. Specifically in the area of Sustainable Corporate Governance. The body has subsequently decided to prepare a consultation draft by July 2024, at the latest, to examine the applicability of the new EU rules for ESG reporting. In the area of due diligence, however, it is still intended to wait. SwissHoldings welcomes this decision. It is true that the EU is planning a new law to monitor risks in value chains. However, the contours of this regulation are only beginning to emerge (see also media release SwissHoldings: Federal Council rightly adheres to an internationally coordinated approach in the area of corporate responsibility - SwissHoldings). In addition, the parliamentary initiative (Pa.Iv) Gredig (21.427)" - "Combating forced labor by expanding the scope of the counter-proposal UVI" is currently being dealt with in the Legal Commission of both Councils. The

SwissHoldings

	aim of the parliamentary initiative is to ensure the scope of the counter-proposal is extended to include the prohibition of forced labor in the special due diligence obligations and transparency; with a focal point on conflict minerals and child labor (Art. 964j et seq. CO). The focus here is on the core conventions ratified by Switzerland on the International Labor Organization No. 29 regarding forced or compulsory labor, No. 105 on the abolition of forced labor, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines. However, in mid-March the Legal Commission decided to suspend the work on implementing the parliamentary initiative Gredig 21.427 "Combating forced labor by extending due diligence" until further notice against the backdrop of current developments at EU level and the corresponding resolutions of the Federal Council (see also above). The Commission has expressed its support for petition 22.2039 "Coalition for Corporate Responsibility. For a strong corporate responsibility law" as part of the parliamentary initiative Gredig 21.427.
Outlook	The new obligations associated with the implementation of the counterproposal are challenging, especially in the area of child labor. The association will support the implementation work for the member companies as far as possible and offer a platform for the exchange of expertise.

Developments EU Level

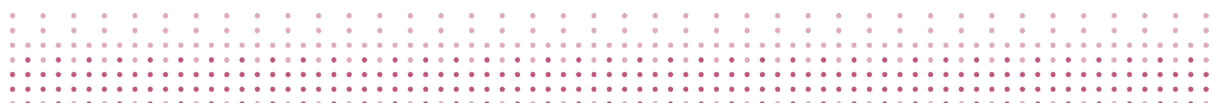
Current Status	The European Commission is presently considering potential regulations in the area of Sustainable Corporate Governance and related Due Diligence. In the first half of 2022, it published a proposal for a directive on Corporate Sustainability Due Diligence. The specific objective is to define corporate interests under European Law, taking into account sustainability criteria. Additionally, the initiative focuses on the implementation of corporate due diligence obligations in global supply chains. In the legislative process, the trilogue negotiations between the EU Commission, the EU Parliament and the Council of the European Union are currently pending. Whereby divergent positions have been introduced into the negotiation process by these three institutions. Considering the current circumstances, it is assumed that the discussions in the trilogue process will be contentious and intensive. If adopted, the directive will have to be transposed into National Law accordingly by the member states.
Outlook	SwissHoldings member companies are likely to be directly affected by this new EU regulation in the area of Sustainable Corporate Governance, The regulation provides for a third country regime - through which Swiss companies operating in the EU are directly covered by EU regulations above a certain size.



SwissHoldings

Collective Legal Protection

Current Status	On December 10, 2021, the Federal Council presented the class action bill and passed it for the attention of Parliament. The bill provides for the expansion of the existing class action, the creation of a new class action for the assertion of compensation claims, and the possibility of settlements declared binding by the courts. The business community is critical of these plans, which the Federal Council wants to establish without prior consultation. In the summer of 2022, the RK-N decided not to act on the class actions. It was not possible at the present time to decide on the expansion of instruments of so-called "collective redress". Essential questions had not yet been clarified. The FDJP was subsequently requested by the Commission to draw up a more comprehensive legal comparison of collective action rights in selected EU states, to examine alternative instruments for "improved access to justice" (including the adaptation of existing instruments), and to analyze the new technological possibilities for the efficient assertion of claims and the associated facilitation of coordination among affected parties. Furthermore, an estimate of the cost consequences of the discussed regulation for the affected Swiss companies was commissioned from the Department of Justice ("Regulatory Impact Assessment"). SwissHoldings welcomes this approach. Switzerland would do well to decide on the introduction of such far-reaching instruments based on a careful analysis of the initial situation and considering all relevant factors. Recent developments have shown that the introduction of new class action instruments in EU member states has led to considerable difficulties – not least against the backdrop of new technological possibilities (such as blockchain, distributed ledger, claim collection platforms, etc., commonly referred to as "legal tech"). Additionally, enforcing claims through legal channels is costly, especially when dealing with collectivized claims. Both litigation costs and risks increase in such cases. This is particularly relevant since the bill, in theory, allows for the concentrated assertion of plaintiffs' claims from all over the world before a Swiss court For the business community, the focus is on efficiently balancing the interests of different parties. There are various instruments for this purpose, and the superiority of individual instruments in relation to others is evident based on empirical developments abroad. Therefore, it is crucial to conduct the discussion at the appropriate level. The fact that the need for action has been emphasized by the Federal Council in the Dispatch on civil procedure indicates that important alternatives have been excluded from the beginning. This exclusion must be addressed through the analyses commissioned by the Commission. The clarifications provided by the Federal administration aim to demonstrate how other countries attempt to resolve tensions between parties resulting from mass and scatter damages. In this context, special emphasis will be placed on the promising system in Scandinavian countries, where the majority of experiences with this model have been positive.
Outlook	SwissHoldings supports the decision of the Legal Commission of the National Council (RK-N). From the association's point of view, the business is not ready for political consultation.



SwissHoldings

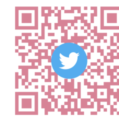
Accounting and Reporting

IFRS Standard Setting

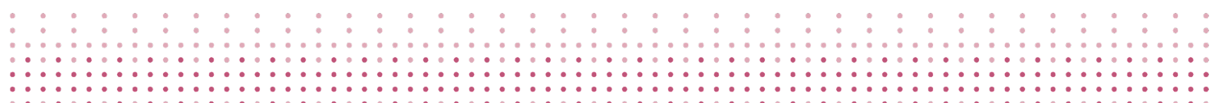
Current Status	The focus of the work was to support and comment on the IASB's consultation on "IAS 12 Income Taxes," in which the Board proposed amendments to IAS 12 Income Taxes. The aim is to provide temporary relief in accounting for deferred taxes arising from the forthcoming implementation of the Second Pillar Model Rules published by the Organization for Economic Cooperation and Development (OECD). The IASB is responding to stakeholder concerns about the potential impact of these rules on the accounting for income taxes in financial statements (the SwissHoldings comment letter can be found at the following link: SwissHoldings comment letter on ED International Tax Reform-Pillar Two Model Rules). Furthermore, the IASB has made proposals for the accounting treatment of certain financial instruments under IFRS 9. A significant and much-discussed application case pertains to financial instruments with payments contingent on the fulfillment of environmental or social-related criteria (ESG clauses). This consultation will run until July. The IASB's work on sustainability reporting is also making progress, with the adoption of the first two standards (IFRS S 1 and S 2) nearing completion.
Outlook	SwissHoldings will continue to actively follow the work of the IFRS Foundation and participate in consultations relevant to our members.

Sustainable Finance Switzerland Strategy

Current Status	At **the end of 2023, the Federal Council published two strategy documents for a sustainable financial center and possible fields of action in general in the area of sustainable finance** ("Sustainable Finance Switzerland - Fields of Action 2022-2025 for a Leading Sustainable Financial Center" and Position Greenwashing Prevention in the Financial Sector). The **Sustainable Finance Switzerland** report highlights the role of the Swiss financial center in terms of sustainability and identifies past and future fields of action. Four fields of action are addressed: (1) sustainability data from the overall economy, (2) transparency in the financial sector, (3) impact investments and green bonds, and (4) pricing of environmental pollution. A total of 15 specific measures can be grouped into the action areas. As shown in the report, many of the measures have already been addressed. **In the position paper on greenwashing, the Federal Council has specified its approach in this regard. Financial products or services should only be offered as sustainable if they are compatible with at least one specific sustainability goal or contribute to achieving a sustainability goal**. This is to ensure that financial products and services that are intended to reduce any ESG risks are only designated as sustainable if they pursue a sustainable investment objective in addition to a purely financial one. Providers of sustainable products or services should explain how they



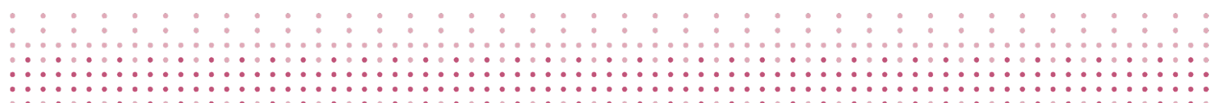
	intend to achieve the intended sustainable investment objective.
Outlook	It is true that many of the aspects under discussion are aimed exclusively at the financial sector. However, the real economy is - at least indirectly - directly affected by the discussion and the planned regulatory approaches. For example, financial services companies depend on information and data sets from issuers to fulfill their transparency obligations. Generally speaking, the primary lever for a transition to a sustainable economy lies with the real economy, which directly influences the various sustainability areas through the production and consumption of goods and services. SwissHoldings will therefore closely follow the planned work of the Federal Government in coordination with the other industry associations.



SwissHoldings

Sustainable Finance & ESG Reporting at EU Level

Current Status	At the EU level, the topic of sustainability is central to public discussion. The European Commission has become actively involved in this discussion through various initiatives. In 2020, the EU adopted the Action Plan for Financing Sustainable Growth, which forms the basis for several legislative initiatives. Among these initiatives is the Taxonomy Regulation, which is particularly relevant for preparers. With the introduction of the Taxonomy, companies will be required to classify all their business activities in a classification scheme to determine the "green character" of their economic activity. Companies will also need to disclose separately the share of sales, the share of investments ("CapEx"), and the share of operating expenses ("OpEx"). Additionally, all these activities must be evaluated in relation to minimum social criteria. The action plan also includes a proposal for a Corporate Sustainability Reporting Directive (CSRD) to replace the existing Non financial Reporting Directive (NFRD). The directive was adopted at the EU level on November 10. The core element of the CSRD is that reporting will no longer be based on an internationally accepted standard such as GRI, but on a new European standard to be developed. Other significant changes include a substantial expansion of the required report content (such as forward-looking elements and information on intangible assets) and the principle that all information must be made available via a digital reporting structure. **SH member companies are likely to be directly affected by both of these regulatory measures due to their close economic ties with EU member states.**
Outlook	SwissHoldings views the current initiatives for greater standardization in the area of sustainable finance and ESG reporting as fundamentally positive. A more uniform framework for mapping a company's sustainability performance helps create clarity and trust between investors and preparers. However, the association emphasizes that sustainability data must always be placed in a comprehensible context with business strategy and financial reporting in the future. The criteria of relevance, feasibility, and cost/benefit ratio should always apply to transparency requirements. While the EU's ambitious plans offer opportunities for sustainability-oriented investors and companies, they also harbor the risk of disproportionate market intervention. The newly envisaged transparency and disclosure requirements for companies in the area of ESG are high and threaten to overwhelm many market players. SwissHoldings is monitoring ongoing developments and continues to support the business, particularly within the framework of the working group of umbrella organizations at the European level.



SwissHoldings

Capital Markets

Monetary Policy SNB

Current Status	In today's extraordinary times, the Swiss National Bank (SNB) is increasingly in the spotlight. At the parliamentary level, various proposals have been discussed with the aim of tying the SNB's distributions to certain purposes. In addition, concerns have recently been raised calling for a reform of the SNB's governance structure.
Outlook	SwissHoldings will closely follow the ongoing developments. From the association's point of view, the SNB's current orientation has proven its worth. The organization is critical of a "politicization" or further earmarking of the SNB's profits.