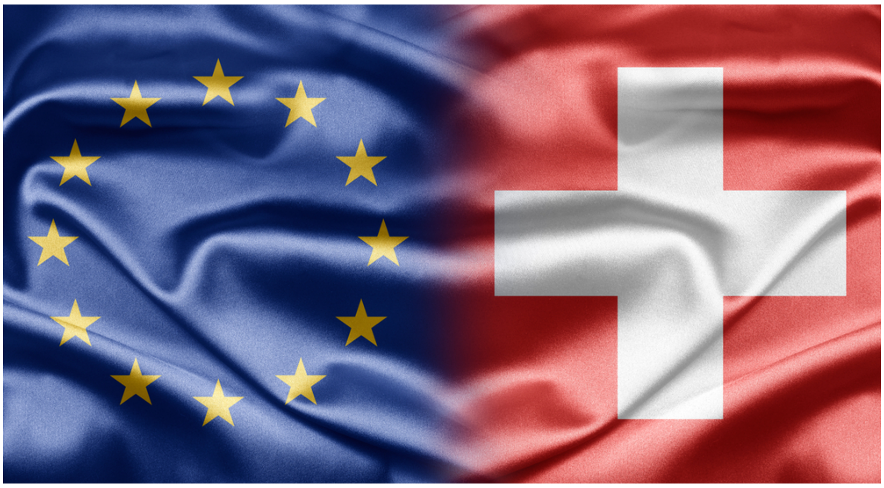
Swiss decide not to decide

Following the non-decision of the Swiss government, Swiss stock exchange equivalence is in question.



Switzerland and the EU

Source: ING

The Swiss Federal Council decided this afternoon not to approve the draft framework agreement with the EU. Instead, it has opened a consultation phase with the cantons, political parties and unions that could last until spring, but does not plan to organize a referendum. The chances of a consultation approving the text are minimal, as the two largest parties (UDC and PS) are opposed to the text and the unions also seem to be against it.

The question now is what will happen to Switzerland's stock market equivalence? The EU said this week that if the Federal Council accepted the deal then the stock exchange equivalence would be renewed for two years. Without the agreement of the Federal Council, stock exchange equivalence would not be extended beyond December 2018. The deadline imposed by the EU for Switzerland to accept the agreement was this December 7. As the agreement has not been approved, stock exchange equivalence is threatened.

However, the President of the Swiss Confederation said that he has had discussions with Jean-Claude Juncker, the President of the European Commission. He insisted that there has been significant progress over recent months and that he wanted to cool things down. It seems, therefore, that the Swiss authorities hope that the progress achieved will enable them to obtain an extension of the equivalence of the exchange, at least temporarily. It remains to be seen what the EU will decide.

Equivalence is necessary for European traders to carry out Swiss securities transactions directly on the Swiss market. Without equivalence, European traders would be forced to trade Swiss securities on European platforms rather than on Swiss stock exchanges. For the Zurich Stock Exchange, this would be a real problem because currently the majority of trading of the main Swiss shares is carried out by brokers based in the EU. In practice, a large part of the liquidity of Swiss shares would be migrated to the European stock exchanges and the Swiss stock market would see its volume of transactions drop drastically. The Swiss Finance Minister estimates that the volume of trading would decrease by 70-80% without equivalence. This situation could lead Swiss issuers to consider transferring their main listings to European regulated markets, thus diminishing the position of the Swiss financial centre and impacting the entire Swiss economy.

If the EU decides not to renew equivalence, this could impact the long-term relationship between Switzerland and the EU. This would be very unfavorable for the Swiss economy, with the EU its main trading partner.

Read our piece excplaining the context at https://think.ing.com/articles/danger-on-the-swiss-stock-exchange/

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com