



Ticino – a place in paradise

By James Williams

Lugano is the principal city of Ticino, in Switzerland's southernmost region and is the Italian speaking region of the country. Milan in the north of Italy is less than a one-hour drive away. Lugano has a long tradition as a financial centre; its first bank was established more than 150 years ago. There are nearly 60 banks and many other financial operators, making Lugano the third main financial hub in Switzerland after Zurich and Geneva.

In total, there are nearly 300 operators in the Ticino financial centre working directly or indirectly in the management of traditional and alternative funds.

"There is now a strong international fund manager community that has chosen Lugano in which to set up operations. There is also a growing number of commodity trading

companies, around 70 at present. Among them is Duferco, one of the biggest steel traders in the world. In Lugano in 2013, the commodity trading sector paid more taxes than any other part of the financial market," comments Franco Citterio, President, Ticino for Finance.

Ticino for Finance provides information to companies/managers on doing business and living in Ticino. "Our goal is to help them locate their business in Ticino, put them in contact with the right professionals. We are a public-private partnership and basically an enabler to make things as straightforward as possible to someone who is interested in setting up their business in Ticino," adds Citterio.

Ticino is ideal for managers wishing to

target the Italian market without needing to relocate to Italy where bureaucracy is quite heavy. Currently, 38 per cent of people living in Lugano are foreign, with UK and Russian managers amongst that number.

Importantly, for any manager considering Ticino, there is no foreign language issue to be concerned with.

"The local regulator is used to conducting its business in a multilingual environment. Since Ticino is only a small part of Switzerland, we have a lot of high-level people here who speak fluent Italian, German, French and English," says Citterio.

Over the years, Lugano's service provider infrastructure has continued to improve. The IT infrastructure is excellent, as is the transport infrastructure.

"In Lugano there is a small airport. It is very quick and easy to use. Geneva is a 30-minute flight away. The longest railway tunnel in the world is currently being excavated – 57 kilometres long -which, when ready, will allow people to get from Lugano to Zurich in just 90 minutes," adds Citterio.

For any asset manager wanting to start a business in Switzerland, it is necessary to receive a license from the financial regulator, FINMA. The management company managing foreign funds must have starting capital of CHF500,000 to meet the minimum capital requirement. Also, there needs to be a proper separation of functions between administration (compliance, risk management) and front-office; those managing the trading of the fund(s).

"The positive for Switzerland is that the organisational requirements are not so strict. You can put a small management company in place, let's say with three or four people working in a management company, the Board of Directors controlling the activity done by these employees and outsource compliance, risk management, etc. You can

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keep the structure small and nimble," says Lars Schlichting, Partner at KPMG Lugano.

To receive a FINMA license, all the persons connected to the management company including the board of directors need to pass a fit and proper test. What is specific to Switzerland, more than other countries, is that managers can develop a very close dialogue with the regulator.

"This is a benefit to being a small country. You can call and speak to the person handling the supervision of your license to discuss any issues or problems with the application and typically, depending on the structure of the company, you might expect the fund management application to be approved in four to six months," explains Schlichting.

Fund distribution opportunities

From Switzerland a manager is free to manage any kind of fund, be it a Swiss fund, a European fund (e.g. a Luxembourg SIF) or an offshore fund. Switzerland has an excellent fund market for qualified investors for which the SIF, the Maltese PIF are commonly used according to Schlichting.

With respect to distribution of these funds, it is very easy if the manager intends to target qualified investors. A manager of a foreign fund can place the fund by going to speak with private banks for them without any issue.

"When you do so, you don't need to have the foreign fund regulated in Switzerland, you don't need the fund to be registered in Switzerland, you don't need to have a legal representative or a distribution license. You take your fund to Private Bank X, and see if they want to buy it for their clients under an Asset Management Agreement. It's that simple.

"Now, if you want to expand your distribution strategy – to target not only





private banks but also external asset managers, pension funds, etc – again the foreign fund doesn't need any registration. However, what you do need is a Distribution licence, a Swiss legal representative and a paying agent. The distribution licence is more a registration to FINMA. It does not require any supervision from FINMA, but just an audit for the distribution of the funds. The Management Company, which is supervised by FINMA, does not need such a registration. The legal representative is an appointed company that represents the said fund in Switzerland," says Schlichting.

Schlichting says that Ticino's biggest advantage compared to other Swiss financial centres is cost. Quite simply, the canton of Ticino is less expensive than Zurich and Geneva when it comes to rental costs, living costs, salaries etc.

Ticino's tax regime is also attractive. There are three levels of tax in Switzerland: federal taxation (8.5 per cent), which is the same across Switzerland, canton taxation and communal taxation.

"If you look at the statistics of where management companies are usually based you will see that they are mostly located where tax regimes are attractive. In Switzerland, we have three places which are well known fiscally speaking; Pffafikon, which is tax attractive but expensive to live there; Zurich, which is also tax attractive and

also expensive; and finally, we have a lot of managers choosing Paradiso, located next to Lugano, which is very tax attractive but not as expensive. According to estimates on 2011 fiscal data, Zurich's tax was 18 per cent, Paradiso was 13 per cent and Pffafikon was less than 13 per cent," comments Schlichting.

Ongoing obligations to FINMA

Instead of having the supervisory authorities supervising the manager directly, Switzerland has what it calls an 'indirect supervisory system'. This takes the form of audit companies, which every year submit audit reports to FINMA.

"They ensure that the management company is fulfilling its obligations in respect to minimum capital, that the risk management processes are in place, that compliance is doing its job etc. Every year a manager needs to have this audit and all these points are then reported back to FINMA," confirms Schlichting.

"We aren't the biggest financial centre in Switzerland so it's very easy to speak with the authorities to find a tailor-made solution," says Citterio in conclusion. "The work environment is good. At the same time you have the mountains and lakes surrounding you and one of Europe's leading cities in Milan just an hour away. Ticino offers a very attractive work, life balance." ■