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The Facts of the Matter Distilled

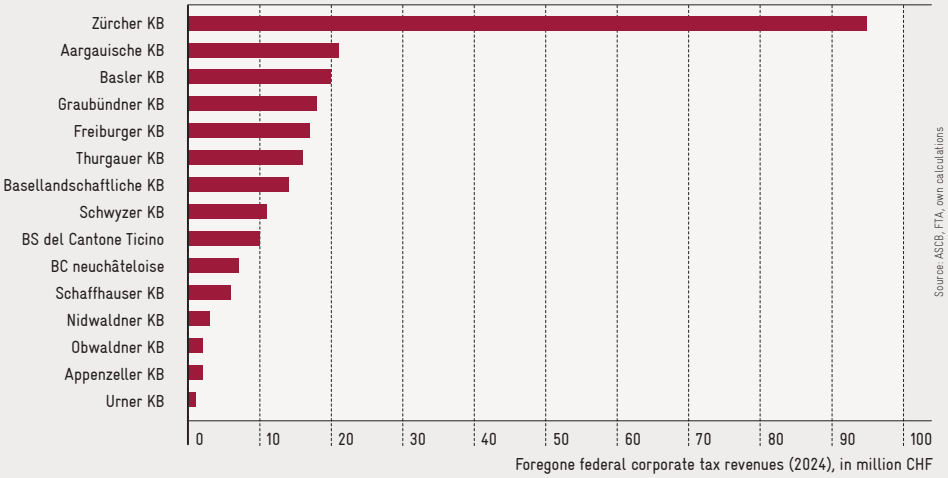
Outdated Cantonal Bank Policy

Most cantons grant their cantonal banks extensive privileges: explicit government guarantees and tax exemptions. These come at a cost to taxpayers, private banks and the Confederation.

Situation

Switzerland's financial system has evolved considerably since the first cantonal bank was founded over 200 years ago. Yet cantonal banking policy has remained largely unchanged. Many cantons are sticking to the privileges of the (partially) government-owned financial institutions. In the event of a crisis, 21 cantons are still liable by law for the banks' obligations. In addition to these explicit government guarantees, exemption from tax liability is also widespread. For example, 15 cantons exempt their cantonal banks from tax liability at federal level. In total, only 8 cantonal banks are taxed as private companies.

Cantonal revenue optimization at the expense of the Confederation



15 cantonal banks, organized as public-law institutions, are exempt from direct federal tax. As a result, the Confederation misses out on around CHF 193 million each year.

Facts

CHF 556 m

This is the average estimated value of the explicit government guarantees, which range from CHF 282 million to CHF 746 million.

■ High costs in the event of a crisis

Explicit government guarantees are a potentially high financial risk for the owner cantons. If a cantonal bank faces difficulties, taxpayers can be burdened for years. In the caton of Solothurn, the emergency sale of its cantonal bank led to 15 years of financial hardship.

■ Benefits for cantonal banks

Explicit government guarantees reduce a bank's default risk, resulting in lower capital costs for cantonal banks compared to private institutes. This financial advantage distorts competition in the financial center.

■ Insufficient compensation

Most cantonal banks pay compensation to the canton in return for their explicit government guarantee. However, these compensation models rarely account accurately for the risks and benefits involved.

■ Distorted financial equalization

Tax exemption distorts the calculations of the national financial equalization system. As a result, cantons that tax their cantonal banks like private companies – or don't have one at all – are disadvantaged in the redistribution process.

Recommendations

Unlike when cantonal banks were founded, there is **no longer an undersupply** of financial services today that justifies government intervention. It is therefore time to **abolish both explicit government guarantees and tax privileges.** As the cantons of Berne, Geneva and Vaud show, these special treatments are not necessary to operate a cantonal bank. Without an explicit government guarantee, cantons **have more flexibility in times of crisis,** as they are no longer legally bound to provide financial support. **A change in legal structure** – from a public law institution to a company limited by shares – is sufficient to ensure equal tax treatment across all banks.

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