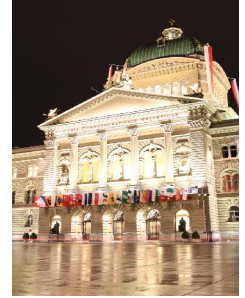


Doing business in Switzerland





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Forword

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- ***Tax***
- ***Accounting***

SWITZERLAND: KEY FACTS



Full Country Name	Swiss Confederation
Capital	Bern
Government Type	Federal state
Currency	Swiss Franc (CHF)
GDP per capita (PPP)	\$70,000
Exports	Machinery, chemicals, metals, watches, agricultural products
Imports	Machinery, chemicals, vehicles, materials, agricultural products, textiles
Population	7.7 million
Area	41, 290 sq km
Major Religion	Roman Catholic, Protestant
Language	German, French, Italian, Romansch
Major Cities	Bern, Zurich, Geneva, Basel, Lugano
Climate	Central European, Mediterranean
Time Zone	GMT/UTC +1
Dialling Code	+ 41

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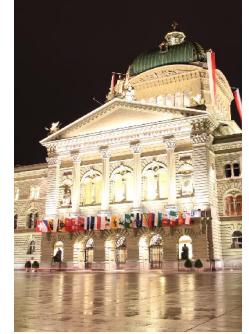
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Introduction

Country Profile

Switzerland is an ideal example of a successful multicultural and multilingual society living in a harmonized way. The Swiss Confederation occupies a small landlocked territory of about 41,290 square km and has a population of 7.7 million. Strategically located in the heart of Europe, it shares borders with Germany, France, Italy, Austria and Liechtenstein.

The linguistic geography of Switzerland is very broad and consists of four languages: German, French, Italian and Romansch (based on Latin and spoken by a small minority in the Canton Graubunden). English is widely spoken especially among professionals.

Domestic Politics

Switzerland has a stable, consensus-based, governance system designed to cultivate direct democracy. The 26 cantons are the member states of the Federal State of Switzerland. As a highly decentralized true confederation of states, political and administrative responsibilities are divided among the federal (national), cantonal and municipal levels of government. Each canton has its own constitution, code of civil procedure and parliament chamber. The Constitution provides for the separation of the three branches of government: the Federal Assembly, the Federal Council and the Federal Tribunal.

Being located at the heart of the European Economic Area (EEA) there is a well-established Swiss-EU relationship mostly concerning trade, labour and transport issues.

Economic Overview

Switzerland is a peaceful, prosperous and modern market economy with a per capita GDP among the highest in the world. The economic downturn has not been as deep in Switzerland as in most other OECD countries. The relative lack of imbalance and debt burden is expected to allow the Swiss economy to return to the pre-crisis levels of economic activity faster than its west European peers.

- ✓ **GDP:** Stable with high indicators. Average annual GDP varies between 450 and 500 billion (US\$).
- ✓ **Inflation:** Low inflation with constant indicators between 0.5 and 2 per cent.
- ✓ **Unemployment:** Switzerland has one of the steadiest and proactive employment markets offering top-quality employee benefit solutions. Shows lowest unemployment levels in Europe.
- ✓ **Private Consumption:** Being strongly correlated with the GDP development, the interest rate level and the monetary environment, private consumption in Switzerland is rather strong (55% of GDP approximately), driven by a generally positive consumer sentiment.
- ✓ **Industrial Production:** Swiss industrial production is focused on value-added products such as pharmaceuticals, electronic devices, precision tools and industrial machinery.
- ✓ **Imports / Exports:** Traditionally Switzerland's exports exceed imports by far. The reason is that Switzerland processes several import commodities and resells them to its trade partners at a profitable margin.

Competitive advantages

Switzerland has one of the most advantageous competitive positions in the international market thanks to the skills of the employees and the human resources.

- **Education System**

Switzerland claims to have one of the world's best education systems and pays much attention to the importance of human resources. The educational level largely determines employment prospects and plays a key role in international competitiveness.

Almost the entire Swiss population is literate and local educational procedures differ from canton to canton, but the basic structure relies on a dual system common to all the cantons.

- **Telecommunications / IT**

Leading role is given to the development and implementation of the forward-looking, innovative and sustainable ICT (Information and Communication Technology) solutions. The Swiss government and the private sector are important in developing and defusing ICT (Information and Communication Technology) for infrastructure, content and applications.

According to the Economist Intelligence Unit, spending per capita on information and communications technology in Switzerland is one of the highest in the world and well above the Western European average. The IT-intensive industries such as financial services occupy a large share of the economy.

- **Transport Systems**

The Swiss transport system is known to be one of the finest in the world. The dense network of railroads, bus and tramway lines together with systematic timetables allow one to reach any point in the country in no time. Annually many funds are invested into transportation infrastructure and road building. Highways and motorways across the country connect France, Germany, Italy, Liechtenstein and Austria.

The International airports of Zurich, Geneva, Basel and Lugano receive flights from all over the world and have their own railway and bus stations directly connected to all major cities in Switzerland and neighbouring countries.

- **Quality of Life**

Switzerland is rated one of the highest in terms of quality of life thanks to its stable political scene, sustainable social system and strong economic factors. With one of the highest GDP per capita, Switzerland has one of the lowest crime levels in the world. Moreover the quality of food, other goods and services are very high and of great importance to the population. Switzerland offers as well a wide range of opportunities for free time, leisure, culture and sport.

The country is extremely visited by tourists who appreciate reaching a variety of landscapes all embodying truly rare beauty.

- **Competitive Tax Environment**

Switzerland is internationally known for its favourable tax environment. For businesses special tax rulings are offered by most cantons in Switzerland that can reduce the already moderate tax burden to extremely attractive levels. Furthermore both individuals and legal entities can benefit from double taxation treaties and bilateral agreements.

- **Government Support**

Switzerland offers support on various levels to entrepreneurs willing to move or create a business on the territory. New companies, especially if active in the field of innovative technologies, are supported at both the federal and the cantonal levels through a vast number of available incentives and subsidies.



Living and Working in Switzerland

The Swiss versatile nature is also reflected in its demographic features of population. Officially over a fifth of the countries' total population is made up of resident foreigners and temporary foreign workers. The proportion of foreigners in Switzerland is the second highest in all of the OECD and contributes to three-quarters of the total population growth.

Requirements to Enter

Foreign nationals who wish to enter Switzerland must comply with the entry and customs regulations. In any case, a valid and accepted travel document is required in addition to a visa (in certain cases), confirmation of sufficient funds, and adequate accommodation available. Validity of the ID and Visa provisions vary in accordance with nationality. For further information on requirements to enter please visit:

- ID and Visa provisions: www.bfm.admin.ch > Topics> Entry
- Swiss embassies and consulates: www.eda.admin.ch > Representations

Working in Switzerland

Gainfully employed foreign nationals are an important part of the Swiss economy where special interest is expressed towards highly-qualified personnel. In the past few years great effort has been made towards facilitating the entry process for this particular immigration category.

Switzerland can be defined as having a dual admission system when welcoming foreign employees and their families:

- **EU Nationals** - Immigrants from the EU/EFTA countries in principle are granted the same treatment as Swiss nationals with regard to residence provisions and access to the labour market. Free right to enter and stay in Switzerland is granted, provided that a work and residence permit are obtained (which is a formality in the presence of an employment agreement).

➤ For more information: www.bfm.admin.ch >Topics>EU/EFTA citizens in Switzerland

- **Non EU Nationals** – For the remainder of foreign nationals (so called Third Countries) and some of the EU citizens willing to live and work on Swiss territory the entry process is much more complex. Visas are limited and must be obtained before entering the country.

- **Swiss Permits - There are four main permits available:**

Short-term residence and trainee permit (L) – Permit type L is issued for up to 12 months upon presentation of an employment contract with the same validity period. However the trainee permit is issued to individuals aged eighteen to thirty willing to increase their qualification and may be extended for up to 18 months.

Long-term residence permit (B) – Generally issued for one year upon presentation of an employment contract and may be renewed annually.

Cross-border commuter permit (G) – Issued to foreign workers living abroad, provided that they return home at least weekly.

Settlement Permit (C) – can be obtained by individuals from the EU-10 and EU-15 countries after a regular and continuous stay in Switzerland of five or ten years respectively.

➤ For more information on employment and work permits please visit: www.bfm.admin.ch > Topics> Labour/Work Permits

Registration

When planning to stay in Switzerland for more than three months and/or to start employment, each person must register with his/her local authority (municipality) within eight to fourteen days of arrival.

Employment Contract and Working Conditions

Switzerland is known for good working conditions and pays great attention to its monitoring and improvement.

The employment contract is generally regulated by the Swiss Code of Obligations and can be concluded for a definite or an indefinite period, on a full or part-time basis. The salary may be calculated by periods of time (time wage) or according to the work carried out (piece wage).

- From the legal aspect, there is no minimum wage unless stipulated in a collective employment contract. Regular termination terms vary between one and three months depending on the duration of the employment period. In case of termination of employment both contractual parties are protected by law from abusive employment termination.
- Maximum working hours vary between 45 and 50 hours per week and depend on the industry e.g. 45 hour limit is applied to industrial workers and office staff.
- The legal standard for employment holidays is four weeks. However holidays will depend on the employer, the employment contract and age of the employee.

Accommodation and Living Expenses

According to the Swiss Immigration Office the average accommodation expenses in larger cities make up over 20% of the average salary. The generally high accommodation costs and the compulsory health insurance contribute to the high cost of living. However there are the benefits of extremely low crime, efficient social security networks, high level of quality of life and a widespread and efficient public transport system.

- List of real estate market links www.swissinfo.ch
- Real estate portals www.homegate.ch ; www.immoscout24.ch

Social Security System

The Swiss social security system is based on the so-called three pillar system, a threefold system of public, employment and private insurance. These must allow the previous standard of living to be maintained at the time of retirement, in case of invalidity or death, for the individual or the survivors. Pillars I and II target the obligatory benefits meanwhile Pillar III covers private social security.

- **Pillar I**

This pillar is composed of Old Age and Survivor's Insurance (OASI) and Disability Insurance (DI). The OASI/DI social security is obligatory for all domiciled persons or those exercising a lucrative professional activity in Switzerland. The OASI covers insured persons from the loss of income due to retirement or invalidity and aims to ensure a basic lifestyle and provide financial benefits in case of invalidity.

The minimum annual contribution is CHF 460. For the gainfully employed, the OASI/DI contribution is 10.3% of the gross salary and is paid fifty-fifty between employer and employee.

- **Pillar II**

This pillar covers a professional social security to allow aged, surviving and invalid people with OASI/DI pension, maintain the previous life standards. All gainfully employed professionals in Switzerland with an annual income of at least CHF 20,880 have to be insured. Contributions depend on the age of the insured person and are usually split equally between employer and employee.

- **Pillar III**

The third pillar is an optional personal insurance to further increase benefits at retirement. Third pillar insurances are often seen as a form of saving and offer certain tax benefits.

- **Health Insurance**

Covers medical expenses and guarantees access to good medical treatment. This insurance is usually arranged individually to suit individual needs. This insurance is compulsory for all Swiss nationals and residents. Anyone working or residing in Switzerland must arrange to be insured within three months.

In Switzerland Health Insurance is usually paid on a monthly basis and considered to be one of World's most expensive. However applicable exemptions and premium reductions are available.

- For more information www.bsw.admin.ch

Taxation

In the past few years Switzerland has worked hard to come up with new ideas for its tax system and to improve an already favourable tax climate.

The Swiss tax system mirrors the country's federal structure and is based on the constitution where all 26 cantons have the full right to exercise taxation except for those taxes that are exclusively reserved for the federal government. Swiss fiscal structure can be classified into two levels of taxation- the federal and the cantonal/communal.

- **Tax on Personal Income and Wealth**

All individuals with permanent or temporary residence in Switzerland are subject to taxation, both federal and cantonal/municipal. Taxes are levied and collected by the cantonal tax authorities and are assessed for a period of one year on the basis of a tax return to be filed by the taxpayer.

Personal Income Tax – Paid by resident individuals on their worldwide income (with limited exceptions of foreign investments), after certain allowed deductions, at both the cantonal/municipal and the federal level. Total income is calculated from dependent or independent personal activities, from compensatory or subsidiary payments, and income from movable and immovable property. The individual tax rates are typically progressive, whereas a maximum tax rate of 11.5% applies at the federal level. However every canton/municipality may set its own tax rates up to a maximum of approximately 30%. Typical total income tax burden in Switzerland may range between 10% and 35% (for top quartile incomes). It is important to point out that capital gains in Switzerland are usually exempt from taxation.

Tax on Wealth – Individuals in Switzerland are subject to taxation on their net wealth (net assets). Net wealth tax is levied only at the cantonal/communal level in accordance with the respective cantonal tax laws. The tax is based on the balance of the combined gross assets of both immovable property and movable assets such as bank deposits, securities, real estate, etc. Taxes are also levied on assets not yielding any income. Wealth tax is progressive and ranges from 0.5 ‰ to 5‰ approximately of the net wealth.

- **Exceptions:**

Expatriates – are foreign managers and certain specialists seconded to Switzerland on a temporary basis for a period of up to five years. Qualifying professionals may claim tax relief on expenses incurred due to their stay such as: relocation and travel costs to and from Switzerland, some of the accommodation costs, costs for school age children.

Cross-border commuter – is a person who lives in the selected countries e.g. Austria, France, Germany, Italy and Liechtenstein and work in Switzerland. The Swiss taxation of such individuals differs and may result in partial taxation, depending on their place of work and domicile.

Lump-sum taxation (“LSt”) – qualifying persons are temporary or permanent residents in Switzerland that enter for the first time or have been absent for at least ten years, and are not gainfully employed. Anyway Swiss citizens can profit from Lump-sum taxation for just one year. Lump-sum taxation is a form of special tax arrangement provided by both federal and cantonal tax legislations and may also result in subsequent treaty relief on foreign-source income.

- **Main Features of LSt:**

- no wealth tax;
- taxable amount for the purpose of income tax to be agreed upon tax authorities;
- minimum taxable income about CHF 200'000 p/annum i.e. about CHF 30'000 – 40'000 taxes p/annum however:

- Taxable amount to correspond to the effective yearly expenses of the taxpayer;
 - Taxable amount not to be less than 5 times rental value or rent of Swiss real estate of the tax payer;
 - Taxable amount not to be less than income of Swiss source, if any.
- the taxpayer may choose whether or not to declare foreign income or/and wealth;
 - ordinary donation and inheritance tax;
 - no exit taxes in Switzerland.

▪ **Conditions to qualify for LSt:**

- ***EU citizens***

No activity in Switzerland after becoming Swiss resident and no activity in Switzerland for at least 10 years.

- ***Non-EU citizens***

- Same as above listed for EU citizens.
- At least 55 years old and/or the special links or relationships representing particular interest for the Canton in granting the residence permit. Exceptions on age limitation possible but very rare.

Residential Real Estate

When willing to purchase real estate in Switzerland it is important to consider that the legal situation may vary depending on the origin and the legal status of the foreign purchaser. Similarly, the location of the property may also alter the legal situation, depending on whether or not it is located in a tourist area. The Federal Law provides foreign citizens with conditions for purchase and legal framework in a form of “Lex Furgler-Koller-Friedrich” or LFAIE.

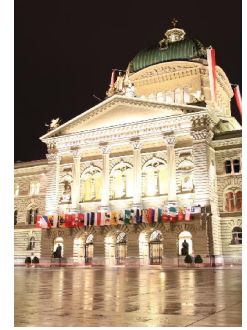
- **LFAIE** stipulates sales to foreigners on the basis of annual quotas per tourist region and has the following conditions:
 - Non-Swiss (not residing in Switzerland) may only own ONE property per family in Switzerland
 - The owner must occupy the property as a holiday home
 - Restrictions may apply in regards to the size of the living area
 - The property can be rented out for up to 11 months per annum
 - The restrictions on property resale apply and vary in accordance with location

- **EU citizens** – When desiring to acquire a residential property as a main residence and/or a holiday home, only the EU/EFTA nationals with Swiss domicile or in possession of a “B” type permit enjoy the same treatment as Swiss citizens. All other residents in possession of a valid permit or without one are subject to restrictions or LFAIE rules.

- **Non-EU citizens** – If acquiring a main residence in Switzerland, all non-EU foreigners are subject to limitations, unless in possession of a Swiss domicile or a “B” type permit. Meanwhile when buying a holiday home, only persons with Swiss domicile have no limitations. In all other cases permission is needed and LFAIE rules apply.

- **Other formalities**

- **Financing – Mortgage:** The standard mortgage granted by Swiss banks for purchases with only the property as security is 50 to 70% (depending on the income) of the total purchase price;
- **Fire Insurance:** In some cantons fire insurance for the building and its furniture is compulsory;
- **Recordings in the Land Registry:** The acquisition of the property is made legal with the recording of the purchaser(s) in the Land Registry;
- **Annual co-property charges:** Estimated average costs of maintaining a building are usually between 0.9% and 1.1% of the purchase price;
- **Taxes:** The *fiscal value* of the property (usually 2/3 of the market value) is used to determine taxable wealth and *rental value* which constitutes the basis for the income tax. In most cases both are levied at the place of residence of the owner.



Doing Business in Switzerland

Banking and Finance

Swiss Banking

Overview

The Swiss banking sector is considered to be the key sector in the Swiss economy with an international reputation for competence and sophistication. Banks are engaged in all types of activities in relation to both private and commercial specialisation. Switzerland is the world's leader in private banking.

The role of the country's central bank is held by the Swiss National Bank (SNB) with Union Bank of Switzerland (UBS) and Credit Suisse (CS) being the country's major banks.

For more information on Swiss Banking www.swissbanking.org

Regulatory System

Switzerland is not bound by European Legislation because it is neither a member state of the European Union (EU) nor of the European Economic Area (EEA). This allows Switzerland the autonomy to regulate its financial services industry as it deems fit.

- **Legal forms of banking regulation**

Banking regulation can be expressed in various legal forms. In Switzerland, the fundamental principles are codified in the federal legislation (e.g. in the Banking Act, the Stock Exchange Act, the Financial Market Supervision Act) while concrete details are set out in government ordinances (e.g. in the Banking Ordinance and in the Stock Exchange Ordinance). In addition, there are ordinances and circulars issued by the Swiss Financial Market Supervisory Authority (FINMA) as well as self-regulatory directives, guidelines and recommendations issued by the financial sector itself, but under supervision of FINMA, in particular by the Swiss Bankers Association (SBA).

➤ For more information www.swissbanking.org

- **Swiss Financial Market Supervisory Authority (FINMA)**

The main organization responsible for the regulation of banks and financial markets is FINMA which works as an independent federal regulatory authority. Under a dualistic supervisory system FINMA monitors and inspects the audit companies execute the audits and the special inspections commissioned by FINMA.

➤ For more information www.finma.ch

- **SIX Swiss Exchange and the Swiss Bankers Association**

Certain aspects of securities brokering, such as the organisation of trading, are subject to self regulation through the SIX Swiss Exchanges and under the overall supervision of FINMA through the Swiss Banking Association. The SIX Swiss Exchanges also ensure compliance with the regulatory framework for securities insurance and trading, as well as monitoring and enforcing compliance with these regulations.

➤ For more information on SIX Swiss Exchange www.six-swiss-exchange.com

- **Supervision of UBS & CS Group (the “Big banks”)**

The two "big" banks - UBS AG and the Credit Suisse Group - together account for over 50% of the balance sheet total of all banks in Switzerland.

Both UBS AG (UBS) and Credit Suisse Group AG (CS) are classified as big banks and play an important role in the Swiss banking system. Due to their size, complexity, organisation and business activities both banks are subject to more rigorous control. For that reason both institutions are individually monitored by Supervision of UBS and Supervision of CS Group.

- **Swiss Nationale Bank**

As opposed to FINMA, the SNB's responsibility is to monitor the compliance with liquidity rule. It also acts as supervisory authority for payments and securities settlement systems.

➤ For more information on SNB www.snb.ch

- **Supervision of other banks & security dealers**

FINMA supervisory activities draw heavily on the work of recognised audit firms that are delegated to conduct regular sectorial audits of institutions and, in so doing, provide direct supervision. In FINMA, the Supervision of Wealth Management Banks and Securities Dealers, and the Supervision of Retail, Commercial and Trading Banks departments are responsible for monitoring banks, securities dealers and mortgage bond institutions. Institutions that form an economic unit with other companies in the financial sector are also monitored on a consolidated basis as part of the supervision of financial services groups.

Relations with Clients

Main Competences – Provision of a first-class banking service to retail, corporate and high-net worth clients

- ✓ ***Privacy & Legal Security*** – Legal protection and confidentiality is provided through federal laws and regulations for the clients of Swiss banks
- ✓ ***Efficiency*** - Efficiency in managing individual and corporate assets using the most modern methods of information processing and communication systems
- ✓ ***Reliability*** - Social political and financial stability along with sustainability of fundamental banking principles
- ✓ ***Professionalism*** - Multilingual staff permanently trained in order to meet the requirements of the comprehensive and demanding system of “Swiss Banking standard”

Opening a Swiss Bank Account

- **Private:**

- **Regular:**

- Any adult person can open an account in Switzerland, as long as they are able to provide the bank with official and valid identification documents and to document the beneficial owner, if the account's assets have a different or an additional beneficial owner. The legal origin of the assets has to be proven.

- **Numbered:**

- Identical to the one for "regular" clients. The "numbered" accounts are intended to offer an enhanced level of internal security and confidentiality.
- This type of account enjoys no additional legal privacy in terms of confidentiality and should not be used for international wire transfers
- For international payment services the identity for the numbered account has to be disclosed.

- **Limitations:**

- The provision of financial services may be refused to so-called "politically-exposed persons" who may pose a reputational risk, or in case of doubts about the origins of the funds.

- **Corporate:**

A company may open a Swiss bank account regardless of whether its registered office is located in Switzerland or not.

- **Swiss-registered legal entities:**

- Standard entities that conduct commercial, services and manufacturing business and therefore are listed in the Swiss Commercial Register (SCR) should provide the Bank with the relevant extract from SCR.

- **Foreign-registered & non SCR-listed legal entities:**

- Should provide the bank with an extract from the Register of commerce or the equivalent documents allowing the bank to identify the company, ascertain its existence and determine its representatives.
- The same is applicable to the companies operating within a country that does not operate an official Register of commerce.
- This documentation should not be older than 12 months.

- **Domiciliary companies:**

- These are both Swiss and foreign-registered companies that conduct no operational activity and, accordingly, have neither own personnel nor own physical premises.
- In addition, they must also declare the identity of the beneficial owners of their assets with a specific form (Form A).

Monetary Policy and Interest Rate Stability

The SNB's monetary policy strategy consists of three elements. First, the SNB states how it defines price stability. Second, it bases its monetary policy decisions on a medium-term inflation forecast. Third, it sets an operational target range for its chosen reference interest rate, the three-month Libor.

Swiss Financial Market

Overview

Switzerland is not only world famous for banking but also for non-life insurance and reinsurance, commodities trading and trade finance. The Swiss financial market has a strong role in supporting the national economy and includes the following financial market segments:

- Swiss fixed income (bond) market
- Swiss derivatives market
- Swiss options and futures market
- Swiss foreign investment market
- Swiss foreign exchange market
- Swiss mutual fund markets

With each segment falling into the category either related to a trading or exchange system, a clearing and settlement system or a payment system which deals with payment of dealings.

- **SIX Swiss Exchange** – is a principal security settlement organisation that organises, operates and regulates key aspects of Switzerland's capital market. The shares traded on SIX Swiss Exchange are mainly held in Swiss-based accounts of domestic and international investors. Bonds, exchange traded funds (ETFs), exchange traded structured funds (ETSFs) and other investment funds are also traded on the SIX Swiss Exchange Platform. The SMI or the Swiss Market Index is the principal index of the SIX Swiss Exchange.

Business Environment

- **Securities Dealers**

Securities dealers are those falling into criteria defined within the Stock Exchange Act and engaged in securities and other directly related transactions.

All Swiss securities dealers, both Swiss and foreign, must obtain a license under the Stock Exchange Act from the FINMA. If the securities dealers are banks, then they should also comply with the Banking Act. Only after the licence has been obtained may the legal entity register in the register of commerce and start securities dealing activities.

To obtain a licence, the applicant should be able to provide the FINMA with the following:

- evidence of meeting conditions regarding: corporate documentation, structure and organisation of the business, management;
- provide necessary information on certain shareholders, and key management persons .

The detailed criteria for obtaining a licence and the provisions which regulate business conduct are listed within the Stock Exchange Act.

- **Portfolio Managers and Financial Intermediaries**

Portfolio Managers

This type of financial sector enjoys a very liberal regulatory and market framework as it does not fall under either the Banking Act or the Stock Exchange Act. The Portfolio manager can be represented by any type of legal entity or legal person that administers their client's funds.

The Portfolio managers are subject to the Anti-Money Laundering Act (AMLA). Such provision is aimed at ensuring the quality of the capital used in the transaction. Moreover the Swiss Bankers Association provides banks with the "Due Diligence Agreement" and has introduced also the "Portfolio Management Guidelines" for the exercise of asset management mandates.

Financial Intermediaries

Financial Intermediaries are broadly defined to include legal entities and private persons who by profession accept possession of funds. Both can either be self-regulated and a member of a recognised Swiss self-regulatory organisation or directly subordinated to FINMA. Organisations who are neither regulated nor self-regulated must obtain a licence for their activities from the Federal Control Office for the Prevention of Money Laundering.

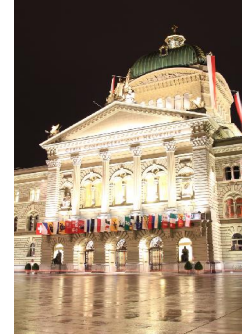
- **Collective investment schemes legislation**

Swiss investment law defines an investment fund as being a pool of assets raised from investors as a result of public offering for the purpose of collective investment. The fund is managed by the fund management company that acts on investor interests in accordance with the principle of risk diversification.

Open-end collective investments schemes are funds established on a contractual basis or an investment company with variable capital (SICAV). Meanwhile a close-end collective investment scheme take the form of a limited partnership for collective investment or an investment company with fixed capital (SICAF).

The investment funds are supervised by FINMA and must comply with the legal framework established within the Collective Investment Schemes Act (CISA), Collective Investment Scheme Ordinance (CISO) as well as Ordinance of the Swiss Federal banking Commission on Collective Investment Schemes (CISO-SFBC).

The CISA has been brought in line with the new EU fund directive UCITS (Undertakings for Collective Investments in Transferable Securities) and provides basic regulations aimed at investor protection by ensuring transparency and functionality of the market. However CISO and CISO-SFBC were established to provide more detailed investment regulations.



Doing Business in Switzerland

Business Structures

Overview

Switzerland represents a highly competitive and innovative business environment and therefore it serves as an excellent test market for all kinds of businesses. Economic freedom, which is guaranteed under the Swiss Constitution, allows anyone, including foreign nationals, to operate a business, to form a company or to hold an interest in one. However, foreign nationals must have both work and residence permits in order to conduct a business personally or on a permanent basis.

There are two main types of business entities clearly distinguished and defined by Swiss law:

- **Capital-based companies** - stock corporation and limited liability company
- **Partnership-type companies** - limited or general partnership and sole partnership

The business entities are governed by the Civil Code or the Swiss Code of Obligations. At the Federal level the legal entities are domiciled in a particular canton where the Commercial Register is held. Anyone trading, manufacturing or otherwise engaged in business must be registered in the relevant register of commerce. The Register is a public document.

Before choosing a form of a business it is important that the following factors are carefully considered:

- Amount and source of capital required
- Risk/liability issues
- Governance and legal restraints
- Tax treatments
- Social security expectations and insurance requirements

Business Structures

- **Stock Corporation**

A stock corporation, hereinafter SA/AG, is a legal entity acting as a joint stock company similar to the corporation in US and the public limited company in UK. It is formed by at least one individual or corporation with a registered share capital and its own corporate name. The liability of shareholders is limited to the amount subscribed for share capital.

The AG is often chosen by foreign companies as a legal form for Swiss subsidiaries due to its appropriateness for large companies and small to medium size businesses. This legal form can be considered as being the most prevalent among Swiss companies. The shareholders of the AG enjoy the right of anonymity.

a) Formation Requisites

- Must be registered in Commercial Registry.
- Minimum share capital CHF 100'000.
- At least 50% of share capital (CHF 50'000) must be paid up upon constitution.
- The share capital can be divided into bearer or registered shares of a minimum par value of CHF 0.01 each.
- Bearer shares must be paid in full and transferred by way of assignment, or if certificates are issued, by physical transfer. Registered share certificates must be endorsed, and the transfer of registered shares must be entered in the company's share ledger.

- A contribution in kind is subject to a special report by the founders, which needs to be confirmed by the auditors.
- There are no requirements of nationality or residence for directors, however at least one person with individual signature power must legally reside in Switzerland. Alternatively it is possible to have two Swiss resident persons with dual signature power.
- The incorporation is completed with the entry of the entity into the register of commerce.

b) Taxation: AG is subject to the following taxes:

- Corporate Tax: Income tax levied on both federal and cantonal/municipal levels, and capital tax just at cantonal level. Total income tax is based on the worldwide income and depending on the canton and community of residence may vary between 12% and 26% on profit before taxes.
- Capital tax is approximately 0.3% - 0.6% of net-worth.
- Withholding tax: On dividends and interests.
- Stamp duties: Usually issued on capital upon formation if equity exceeds CHF 1 million.
- VAT depending on the activities performed and turnover achieved.
- Double taxation treaties and tax exemptions are available.

c) Accounting & Audit

Swiss law requires that a financial statement (balance sheet, income statement and annex) drawn up annually according to Swiss generally accepted accounting principles. The accounting system of the company can be based on any internationally accepted standard (Swiss GAAP/FER, IFRS or US-GAAP) and in any currency. For tax purposes the financial statements have to be prepared according to the Swiss law (OR) and in Swiss Francs. For non listed companies, the accounts are only submitted to the tax authorities and are not open for disclosure.

Consolidation of financial statements of subsidiaries is required when two of the following measures are met in two consecutive fiscal years:

- Total assets CHF10 million
- Total turnover CHF20 million
- An average workforce over the year of 200 employees

The requirements of the audit depend on activities, financial accounts and total employees. The full audits apply for companies:

- Required to prepare consolidated financial statements
- Listed on the stock exchange
- Exceeding two of the three following measures in two successive fiscal years
 - Total assets CHF 10 million
 - Total turnover CHF 20 million
 - An average workforce over the year of 50 employees or more

In a full audit, the auditor must also confirm the existence of an internal control system set up to the specifications of the board of directors (regarding the preparation of the annual report).

Companies which - according to the criteria contained in Art. 727 OR - are not subject to a full audit are, in principle, subject to a limited audit.

During the limited audit, the auditor obtains less assurance than during a full audit. The auditor's attestation is therefore also less binding than one from a full audit.

Small entities, that are not subject to a full audit, and with the consent of all the shareholders, can decide for opting out (no audit required) if they employ less than 10 full time employees; (full-time equivalents averaged over one year).

- **Limited Liability Company**

The limited liability company, hereinafter GmbH, is a capital company with its own legal personality. This entity form is an alternative to the AG due to similar costs and formation procedures involved. Both forms require the execution of a public deed of formation by all founders, and members' liability is limited to the registered capital.

Recently the proportion of GmbH has been on the rise thanks to reduced structural and capital costs in comparison AG, and therefore its viability for small-medium businesses. However as opposed to Stock Corporation it has stronger disclosure requirements.

a) Formation Requisites

- Must be registered in Commercial Registry.
- Share capital of the company must amount to at least CHF 20'000 and may not exceed CHF 2 million. At least 50% of share capital must be paid in cash or in kind by each of the members upon the formation of the company.
- Each shareholder has an interest in the nominal capital in the form of one or more nominal quotes having a nominal value of at least CHF 100.
- All members and all capital contributions or alterations need to be notified to the register of commerce on an annual basis.
- No bearer shares allowed.
- Swiss residents shall be able to legally bind the company.

b) Taxation, Accounting & Audit

Taxation, accounting and audit procedures applied as per AG/SA.

- **Partnerships**

a) Types of partnerships

General Partnership

The general partnership is a person-centred association of at least two individuals, which normally has an economic purpose and operates as a commercial business. Legal entities are not allowed to join a general partnership, as it has no legal personality. It is formed and operates in accordance with a partnership agreement where strict non-competition obligations apply to all partners.

Partners are liable for any debts the partnership may incur, meaning that all partners are subsidiary, personally, jointly and severally liable. No minimum capital is required.

The general partnership is subject to registration in the Commercial Registry, even if considered to be established even before registration. Anonymity is preserved for each partner, unless required by tax authorities in regards to a specific partner.

Limited Partnership

Limited partnership is an association of at least two individuals or legal entities, of which at least one partner (the general partner) is fully liable for all the liabilities of the partnership. As opposed to the general partnership, limited partnerships may have legal entities as members. Furthermore the partnership must consist of at least one fully liable general partner, in contrast with limited partners whose liability is limited to the amount of their contributions. According to the Swiss Code of Obligation the general partner must be an individual (and not a corporate investor).

Recently Switzerland introduced a new law regulating collective investment schemes. Under this law, LPP can be used as appropriate scheme for private equity investments.

Thanks to LLP Switzerland has strengthened its status as a financial centre, as this type of partnership is no longer forced to move to Luxembourg, Ireland or the Channel Islands.

b) Taxation of Partnerships

General and limited partnerships are not regarded as tax entities. Any profits made are taxed as personal income of the partners. The same applies to partnerships' assets that are subject to the personal net-worth tax of partners.

c) Accounting

Commercial bookkeeping rules apply as per the Swiss Code of Obligations, that requires double entry accounts with balance, inventory and income statement. Audit is not required.

- **Sole Proprietorship**

Sole proprietorship is similar to general partnership, but created by only one person (entrepreneur). This means, that a single person manages the business and does not create a company. The entrepreneur provides the capital and is therefore fully and unlimitedly liable for the debts of the business.

If the business is successful it can easily be converted into a corporation such as AG or GmbH.

a) Formation Requisites

- No cogent statutory provisions and formal acts of foundation i.e. no minimum capital requirements
- Subject to inscription in the Commercial Registry only if turnover exceeds CHF 100'000

b) Taxation

A sole proprietorship is not subject to cantonal or federal taxation. However the sole proprietor is liable for income tax and net-worth tax on profits generated and assets owned by the business.

c) Accounting

Swiss commercial bookkeeping rules apply as per the Swiss Code of Obligations, that requires double entry accounts with balance, inventory and income statement. Audit is not required.

• **Branches**

As far as licensing, registration, taxation and accounting records are concerned a branch is treated as any Swiss company. The branch office is legally dependant on the principal enterprise and therefore must carry the same company name along with business activities.

a) Formation Requisites

- Must be registered in Commercial Registry
- In case of branch of foreign company, it must have a legal representative whose legal residence is in Switzerland

b) Taxation

- Treated as legal entities
- Share issuance tax not levied upon formation
- Withholding tax not levied on profits from Swiss branch to its foreign headquarters

c) Accounting

Commercial bookkeeping rules apply as per Swiss Code of Obligations, that requires double entry accounts with balance, inventory and income statement. Audit is not required.

Establishment Procedures

Local banks, consulting firms, fiduciary companies, company law attorneys, and the economic development agency of the selected canton can assist to manage the project locally until the start of operations.

The usual procedure of company incorporation takes on average between two to four weeks and depends on the type of legal form chosen and canton of location. Swiss highly specialized financial advisors are available to assist towards the completed incorporation and in the management of the business.

- For more information on procedures and costs www.kmu.admin.ch or www.kmuinfo.ch

Swiss Corporate Taxation

• Introduction

The Swiss tax rates for companies are among the lowest anywhere in Europe. Total corporate taxes are approximately 17-28% on PBT and are levied at federal, cantonal and municipal levels. Such approach is resulting in inter-cantonal, inter-municipal tax competition and constantly lower tax burdens.

The Swiss corporate taxation is explained in detail below.

• Income Tax

a) General Principle:

Swiss resident companies are taxed on worldwide income. In principle any expenses incurred to achieve a profit and recorded in the statutory accounts are deductible for tax purposes. Whereas not commercially justified expenses are not tax deductible. Taxable profit is therefore based on the profit and loss statement for the period as adjusted for tax purposes.

b) Federal Level

For corporations and cooperatives resident in Switzerland (with registered office or place of effective management in Switzerland) the Swiss Federation levies a flat rate tax of 8.5% on profit after taxes, corresponding to 7.8% on profit before tax.

c) Cantonal Level

Depending on the canton and the municipality, the effective tax rate of the canton and municipal tax range between approximately 10% and 20%.

- **Capital Tax**

Only cantons levy an annual capital tax on cantonal/communal level that varies from canton to canton and depends on the tax status of the company. Capital tax is charged on the following basis:

- Share capital, paid-in-surplus, legal reserves, other reserves, retained earnings
- Any provisions disallowed as deductions for tax purposes
- Debt that economically under Swiss law has the character of equity

- **Withholding Tax**

In Switzerland the aim of the withholding tax is to prevent tax evasion and is levied at 35 percent rate upon payment of dividends, interest on bank deposits, bonds and bond-like loans.

Switzerland has concluded double tax treaties with approximately 90 countries allowing for total or partial tax relief, generally by way of refund. In particular with EU countries, withholding tax is no longer due if certain criteria are met. It has to be put into evidence that Switzerland has recently agreed with Governments of Germany and the United Kingdom that, where residents of those two countries have liquid assets in Switzerland, Withholding Tax will be deducted from future income and gains derived from those

assets. There will also be a one – off tax charge in respect of unreported income from the past. The charges will not apply if the owners of the assets can demonstrate that tax in their home country is not due. The rules are complex and further advice should be sought from a PKF Switzerland Office.

- **Special Tax Regimes**

Various tax privileges exist at the cantonal level in particular for holding and domiciliary/mixed companies, provided that certain requirements are met.

- **Holding Companies**

Holding companies are legal entities whose primary business purpose is, according to the by-laws, to hold and manage long term equity investments. Profits from qualifying participations are in principle tax exempt. To benefit from the holding tax privilege, which basically reduces taxation to 7.8% on profits other than from qualifying participations, two-third of the total assets shall consist of equity investments or two-third of total income shall derive from equity investments.

- **Domiciliary Company**

The domiciliary company tax privilege is granted to companies with purely administrative activity in Switzerland. Effective tax rate depends on the importance of the activity carried out in Switzerland.

- **Mixed Company**

Granted to companies with predominant foreign business, this tax ruling is generally used by international trading companies and may reduce the total effective income tax rate to 10 % approximately.

- **Others**

Other tax advantages can be obtained for principal companies and finance branches.

- **Stamp Duties**

A stamp duty of 1% is levied on issued capital exceeding CHF 1 Mio of AG and GMBH. Moreover a stamp duty between 0.15% and 0.3% applies to certain securities transfers.

- **Real estate taxes**

The amount of tax levied on capital gains from property will depend on the canton where the property is located. The right to tax such gains is reserved to the cantons. The taxation systems adopted by cantons vary between special cantonal real estate gains and the ordinary corporate income tax. The rates are set by each canton and vary considerably.

- **Value Added Tax**

The Swiss VAT model is similar to the EU model. The standard VAT rate is 8%. Lower rates apply for accommodation services (3.8%) and food, water, agricultural products, medical products, books, newspapers, and cultural services (2.5%).

Exclusion from VAT is applied to certain business activities such as the healthcare sector, education, culture, sports, social care, most banking and insurance, real estate and gambling. The exemption is applicable to export of goods and some of the international business models.

VAT registration is compulsory for businesses exceeding CHF 100'000 turnover.

- **Double Taxation Treaties**

Switzerland concluded approximately 90 tax treaties aimed at minimizing double taxation on dividends, royalties & interest payments.

Incentives and Subsidies

There are several promotional measures at both the federal and cantonal level that are granted in connection with investment projects, creation of jobs and at the federal level there are 3 main incentives available under certain conditions:

- Tax holiday up to 10 years
- Interest subsidies on bank credits
- Guarantee for loans received by banks

Each canton offers in addition its own promotional measures especially in connection with investments in innovative technology and job creation.

Cantonal incentives and subsidies can extend well beyond federal ones.

Real Estate

Companies registered abroad, and Swiss companies controlled by persons abroad qualify as foreigners for the purposes of property acquisition. Legal entities have an option to buy or rent the real estate in Switzerland. When making a decision, the legal limitations should be taken into account. These limitations may vary in accordance with the type of the property, its usage and location.

- **Property Acquisition**

Foreigners may buy commercial property and land without particular limitations. Commercial property may also be bought as investment and be rented to a third party. In principle no permit is required to buy real estate used for a business activity i.e. professional or industrial activity.

- **Property Rental**

For properties rented for business purposes, no special limitations apply. When desiring to rent commercial property in Switzerland there are commercial zones of high cantonal interest available. Close to the city, such commercial zones allow for easy B2B collaboration, easy access to transportation and highways.

Appendix I

Useful addresses and websites

General

Integration Office DFA/DEA
Bundeshaus Ost
CH-3003 Berne
Tel: + 41 31 322 22 22
Fax: + 41 31 312 53 17
europa@ib.admin.ch
www.europa.admin.ch

Immigration, entry, residence and labour market

Federal Office of Migration (FOM)
Quellenweg 6
CH-3003 Berne-Wabern
Tel: + 41 31 325 11 11
Fax: + 41 31 325 93 79
eu_immigration@bfm.admin.ch
www.bfm.admin.ch

Social Security

Federal Social Insurance Office
Effingerstrasse 20
CH-3003 Berne
Tel: + 41 31 322 90 11
Fax: + 41 31 322 78 8
info@bsv.admin.ch
www.bsv.admin.ch

Incentives

State Secretariat of Economic Affairs SECO
Effingerstrasse 31
CH-3003 Berne
Tel: + 41 31 322 56 56
Fax: + 41 31 322 27 49
www.seco.admin.ch

Unemployment insurance, labour market, job placement

State Secretariat for Economic Affairs (SECO) – Labour Market and Unemployment Insurance
Effingerstrasse 31
CH-3003 Berne
Tel: + 41 31 322 00 91
Fax: + 41 31 311 38 35
info@seco.admin.ch
www.seco.admin.ch

Taxes

Swiss Federal Tax Administration – Division for International Fiscal Law and Double Taxation Matters
Eigerstrasse 65
CH-3003 Berne
Tel: + 41 31 322 71 29
Fax: + 41 31 324 83 71
dba@estv.admin.ch
www.estv.admin.ch

Buying Property

Federal Office of Justice
Office for Land Registry and Real Estate Law
Bundesrain 20
CH-3003 Berne
Tel: + 41 31 322 41 20
Fax: + 41 31 322 42 25
www.info@bj.admin.ch
www.bj.admin.ch

Banking

Swiss Bankers Association
P.O. Box 4182
CH-4002 Basel
Tel. + 41 61 295 93 93
Fax: + 41 61 272 53 82
office@sba.ch
www.swissbanking.org

Appendix II

SWISS TAX FRAMEWORK

	Confederation	Cantons	Communes
<i>Profit tax (legal entities)</i>	X	X	X
<i>Capital tax (legal entities)</i>		X	X
<i>Income tax (individual)</i>	X	X	X
<i>Wealth tax (individual)</i>		X	X
<i>Real estate tax</i>		X	X
<i>Donation tax</i>		X	X
<i>Inheritance tax (depending on the canton)</i>		X	X
<i>Tax in disposal of real estates</i>		X	
<i>Withholding tax</i>	X		
<i>Stamp duty on issuance and/or negotiations</i>	X		
VAT	X		

Appendix III

MAIN SWISS VEHICLES:

(Stock Corporation SA and Limited Liability Company SAGL)

	SA	SAGL
Share Capital	Min. CHF 100'000 (at least 50% to be paid in)	Min. CHF 20'000 (to be fully paid in)
Shareholders/ members	At least 1 (individual or legal entity). No requirements of citizenship/residence	At least 1 (individual or legal entity). No requirements of citizenship/residence
Form of shares/units	Registered or bearer	Registered
Directors/ managers	One or more members. At least 1 individual, director or manager, able to represent the company (alone or with other individual domiciled in Switzerland), must be domiciled in Switzerland. No requirements of citizenship. No legal entities.	One or more members. At least 1 individual, director or manager, able to represent the company (alone or with other individual domiciled in Switzerland), must be domiciled in Switzerland. No requirements of citizenship. No legal entities.
Audit	- Compulsory only in specific cases (full or limited audit) - Opting out	- Compulsory only in specific cases (full or limited audit) - Opting out
Object	Any object/activity provided that in conformity with the law	Any object/activity provided that in conformity with the law
Time for incorporation	Once the capital is paid in, 1-2 days	Once the capital is paid in, 1-2 days