

Policy Paper

AI Regulation in Switzerland

Balancing Innovation, Trust, and Competitiveness in the Financial Sector



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Executive Summary

Switzerland is at a pivotal juncture in **developing a regulatory framework for artificial intelligence (AI)**. Unlike the European Union (EU), which introduced its AI Act as a horizontal regulatory framework, Switzerland has opted for a more **flexible and sector-specific approach**.

The Swiss Federal Council has committed to **ratifying the Council of Europe's AI Convention** and adapting Swiss law accordingly, but has refrained from adopting a full-scale AI law. Instead, Switzerland is focusing on **integrating AI governance principles into existing laws** at a more granular level, which will provide clarity and legal certainty where needed and allow for more tailored provisions. This strategy is designed to foster innovation while maintaining a framework that ensures **transparency, fairness, and accountability** for AI applications, especially in sensitive sectors such as the financial market.

SIX is committed to taking a proactive, progressive role in this journey. Against the backdrop of our various financial market infrastructures (FMI) operating across borders, we embrace innovation in AI and advocate for regulation that **fosters technological advancement while safeguarding stability and trust**. We therefore **fully endorse the balanced, principle-based approach**, which aligns with our philosophy of responsible innovation under effective oversight.

SIX Outlines the Following Proposals to Position Switzerland at the Forefront of AI Governance:

1

Incorporate AI Principles Proportionally into Swiss Law

Adapt existing regulation in a **competition- and technology-neutral** manner based on subsidiarity. This approach adheres to the Swiss tradition of regulating only **where necessary and at the lowest level appropriate**. And it allows **specificity and flexibility** in adapting to new developments in the fields of rapidly evolving AI technology.

2

Combine Binding Rules with Industry Standards

In addition to binding legal measures, Switzerland should also **promote industry-led initiatives and self-regulation** to address AI risks. This combination would ensure that AI applications remain compliant with international standards and would help **build public trust** and consequently preempt the need for stricter legislative regulation.

3

Align with EU Standards while Maintaining Autonomy

Switzerland should align with EU standards in areas that are critical for **market access**, but without simply duplicating the regulatory framework. This minimal alignment would ensure **competitive positioning** without imposing excessive regulatory burdens on financial market players.

4

Enhance Risk Management Frameworks

For critical sectors such as the financial market, AI must be subject to strong risk management frameworks. The frameworks should remain **integrated into existing supervisory processes**, with specific but **proportional** requirements commensurate with the risk that AI poses in the given business case.

5

Preserve Innovation-Friendly Conditions and Trust

Achieving this balance is vital to the sustainable growth of AI technologies within the financial sector and beyond. Hence, it is essential that **policymakers and authorities** safeguard and enhance **Switzerland's competitiveness** by establishing and maintaining enabling frameworks, including but not limited to AI sandboxes.

1. Current Legal Provisions

Even in the absence of AI-specific legislation, Swiss regulators are already addressing AI within their existing mandates. Notably, the **Swiss Financial Market Supervisory Authority** (FINMA) issued **Guidance 08/2024** on the use of artificial intelligence by financial market institutions. FINMA's guidance highlights risks associated with AI and sets out **expectations for governance and risk management**. It emphasizes that banks, insurers, and other firms must ensure that AI systems are integrated into their risk controls and oversight structures in line with existing laws requiring sound organization and risk management. Key focus areas include data quality, model explainability, human oversight, and ongoing monitoring. This principle-based approach ("same business, same risks, same rules") by FINMA complements the broader regulatory developments in Switzerland.

2. Gaps and Improvement Opportunities in the Current Regulatory Framework

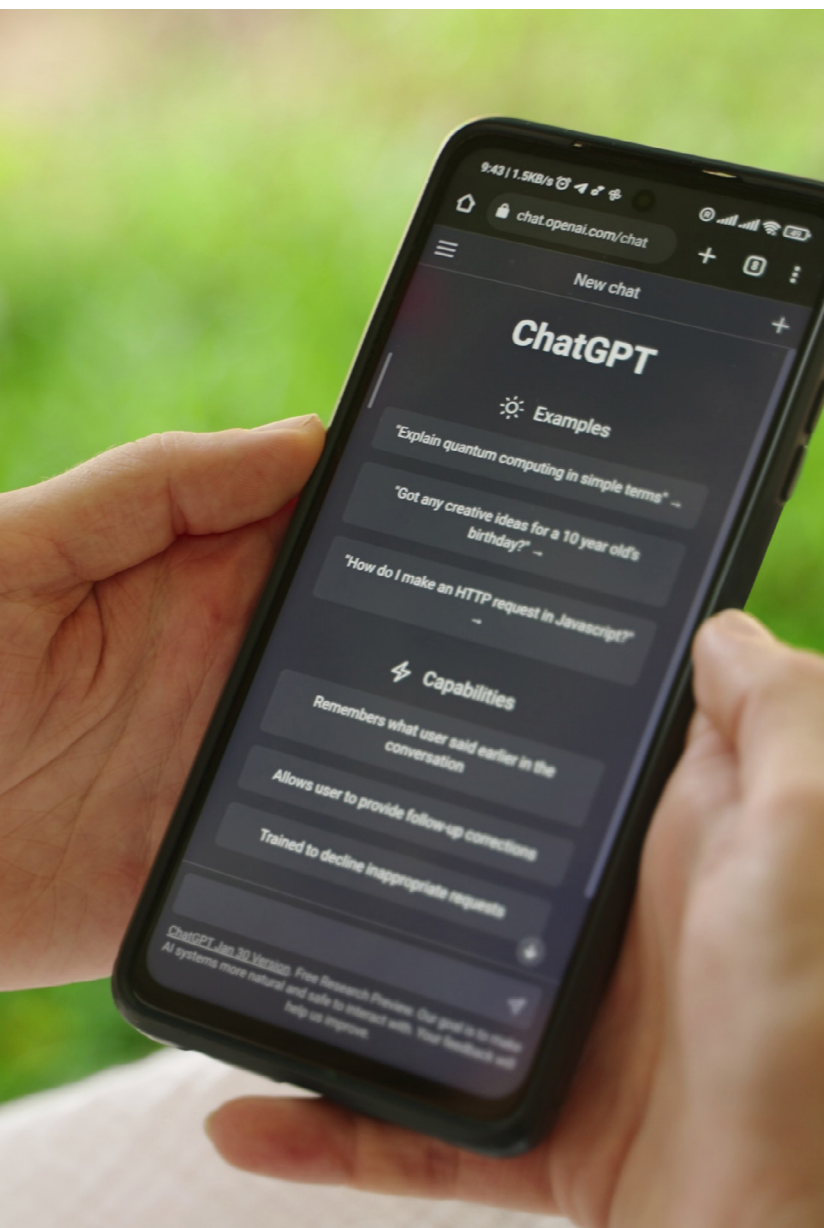
As an FMI provider, SIX has a unique, system-wide vantage point on the deployment of AI in the financial sector. By definition, we are obliged to foster and safeguard the **stability, interoperability, and resilience of the entire financial ecosystem**.

Gaps and improvement opportunities can particularly be identified in the fields of AI **governance, transparency, and risk management**. This analysis builds on the understanding that responsible, innovation-friendly AI regulation must not only ensure safety and trust at the institutional level, but must also protect the functioning and integrity of systemically important market processes. And overall, it must safeguard **Switzerland's competitiveness** in an international environment.

AI governance requirements should be fostered by focusing on **transparency and accountability** beyond the existing FINMA Guidelines. This would include requirements for AI systems to be explainable, auditable, and subject to human oversight. Such provisions would help mitigate risks related to discrimination, bias, and lack of transparency without overwhelming companies with regulations.

Moreover, it needs to be ensured that Swiss companies, especially those with cross-border operations, can continue to **compete globally without regulatory fragmentation**. Ordinances could be aligned to reflect minimal key requirements of the EU framework where needed, ensuring that Swiss regulations comply with international standards.

Switzerland should not create new institutions for AI oversight, but rather **empower existing regulatory bodies** such as FINMA to continue to integrate AI governance into their supervision. This would streamline enforcement and ensure that AI systems are **subject to existing oversight structures**, preventing the creation of unnecessary bureaucracies while ensuring effective regulation of AI.



3. Policy Proposals for an AI Framework in Switzerland

From the perspective of an FMI provider, a well-calibrated AI policy should enable innovation **while maintaining trust and legal certainty**. The following proposals aim to assist Swiss policymakers in refining the AI regulatory framework:

3.1 Implement AI Convention Through Targeted Legislation

SIX believes that Switzerland should translate the Council of Europe's AI Convention's broad principles into **concrete, actionable legal obligations** at the national level. **Modest amendments to existing laws** could provide the necessary clarity and legal certainty. At the same time, existing law should only be specifically supplemented to the extent necessary due to the specific characteristics of the technology and only where not already covered by technology-neutral rules. Policymakers should also monitor systemic risks such as overreliance on a handful of third-party AI service providers, which could concentrate operational risk and reduce market diversity. Based on our operational experience, we recommend that the following key elements be prioritized for implementation:

- **Transparency and Disclosure:** Establish provisions ensuring that when AI systems materially influence decisions impacting individuals, those individuals are notified and granted access to pertinent information upon request. For example, the Banking Act or Financial Services Act could be amended to require that clients be informed if credit decisions or investment recommendations involved AI, echoing the Convention's transparency principle.
- **AI Risk and Impact Assessment:** Building on practices like data protection impact assessments, expect organizations to conduct AI impact assessments. For financial services, FINMA could require AI risk analysis documentation for critical systems. The aim is to ensure that companies systematically evaluate the potential harm or bias of AI before deployment, fulfilling the Convention's call for risk assessment mechanisms.
- **Accountability and Legal Remedies:** Clarify that deploying AI does not absolve companies of responsibility. Law should explicitly state that companies are liable for outcomes of automated systems as if those were human decisions,

reinforcing the Convention's accountability principle. Additionally, ensure that individuals have access to legal remedies if they are wronged by AI-driven decisions – for instance, the ability to contest an automated decision (like denial of service) and have it reviewed by a human.

- **Non-Discrimination Obligations:** To avoid biased AI, organizations need to monitor and correct discriminatory impacts of their AI. Firms test AI models for disparate impacts on protected groups and mitigate any found bias. This enforces the Convention's equality and non-discrimination principle in practical terms.
- **Safe Innovation Clause:** Encourage innovation by including a general clause that Switzerland supports AI innovation provided it is developed responsibly. This might be a policy statement rather than a law clause, but it could be referenced in explanatory reports or strategy documents to reassure industry that the legal framework will remain balanced. For instance, in the legislative commentary implementing the Convention, the government could stress that measures will follow a risk-based, proportionate approach (the Convention itself demands proportionality) and could underscore that research and development are largely exempt from heavy regulation.

By implementing these elements, Switzerland would fill many gaps identified, creating a **baseline of AI governance across the economy**. Importantly, these obligations should be framed in a principle-based, competition- and (as far as possible) technology-neutral way so that they endure technological change. Detailed technical standards (for example on what constitutes explainability or adequate risk assessment) should be developed via guidelines or by referencing international standards rather than being codified in detail in the law.

3.2 Strengthen Sector-Specific Approach

SIX advocates that within the financial sector and other critical industries, regulators should be empowered to **formally integrate AI considerations into their supervisory frameworks**. It is essential to maintaining trust, resilience, and innovation across the financial system. We recommend the following measures:

- **FINMA Guidance:** FINMA's principle-based approach has proven to be forward-looking and efficient, with Supervisory Notices being

an adequate publication vehicle. This helps to solidify expectations as minimum standards in the fields of AI Model Governance, Data Quality and Security, Explainability and Auditability, and Operational Resilience. At the same time, it is important to ensure that there are no distortions of competition between supervised and non-supervised financial market participants.

- **Enhanced Exchange of Information:** Many AI applications span multiple regulatory domains. In the financial market context, FINMA, for example, might work with the competition commission and data protection authorities to ensure that AI-driven activities are compliant, transparent, and aligned with principles of fair competition, and might even consider principles followed by sectors outside the industry.
- **Regulatory Sandboxes:** To encourage innovation in a controlled environment, Switzerland should expand the use of sandboxes specifically for AI solutions. FINMA already allows fintech sandboxes (limited banking activities without a license up to a threshold). A similar concept could let other financial market institutions pilot new AI tools under close supervision and with regulatory waivers, provided they implement risk controls.

By bolstering sector-specific guidance in this manner, Switzerland could reap the benefits of its **flexible approach while mitigating the risk of inconsistency**. For SIX and peers, this means that FINMA and other authorities would clearly articulate what is expected when deploying AI, reducing uncertainty accordingly.

3.3 Ensure Alignment with EU Where Feasible

To maintain Switzerland's access to international markets and prevent the isolation of its AI ecosystem, policymakers should **align minimal key aspects of Swiss AI rules with the EU AI Act and other global standards**. Particularly from our perspective as an FMI provider operating across borders, we recommend a selective, outcome-oriented approach focused on the following principles:

- **Recognize EU-Compliant AI Systems:** Swiss law or regulators could stipulate that AI systems that have been certified or assessed under the EU AI Act regime will generally be considered as meeting Swiss requirements for safety and risk management. In individual cases, however, it is decisive to

comply with Swiss law. But a mutual recognition of equivalence could spare companies duplicate testing or documentation and reduce compliance costs.

- **Monitoring and Dialogue:** Swiss authorities should stay in close dialogue with the EU on AI regulation. This could involve participating in relevant EU forums as an observer. Bilaterally, Switzerland might negotiate agreements or at least informal understandings that its approach, though different in form, upholds equivalent outcomes to the EU Act. Such engagement will help identify regulatory arbitrage issues at an early stage.
- **Avoid a "Swiss Finish":** Policymakers need to be cautious not to layer on unnecessary requirements beyond what international norms call for. Adding national gold-plating would raise compliance costs without enhancing outcomes. Therefore, in drafting Swiss AI requirements, every element should be measured against EU and Convention standards to ensure that Switzerland is compatible but not stricter for its own sake: less stringent requirements (deviating downward) should be allowed when appropriate and not distorting competition, but stricter requirements (deviating upward) should be avoided.

Through these actions, Switzerland could maintain its regulatory sovereignty yet remain deeply interconnected with the EU regulatory space. For SIX and peers that interface with EU markets, this **means less friction**. Equivalence and harmonization will allow them to continue offering services across Europe and attract foreign participants, confident that Swiss-regulated AI is at least on the same level as EU-regulated AI in terms of trust and safety.

3.4 Foster Industry Self-Regulation and Best Practices

SIX supports combining formal regulation with **non-legally binding measures** such as industry self-regulation. We believe that policymakers should empower and encourage the private sector to develop codes of conduct and technical standards for ethical AI. This collaborative approach can **address nuances that rigid laws might miss while allowing for swifter updates in response to technological change**. Based on our experience, we propose the following measures for consideration:

- **Industry AI Principles Charter:** Financial institutions could draft a set of AI ethics principles tailored to the finance sector. This might cover

a commitment to human oversight, fairness in algorithms, transparency to clients, and data privacy and cybersecurity in AI deployments. If broadly adopted, such a charter would signal an industry-wide commitment to responsible AI. Regulators can endorse these principles, perhaps even referencing them in supervisory practice.

- **Best Practices Guidelines:** For more granular guidance, industry groups could publish best practices. Such documents would share recommended methodologies for testing AI models for bias, ensuring explainability, data governance practices for AI training data, etc. Over time, such best practices might inform international standards and could be referenced by regulators as suggested methods to comply with broad legal duties.
- **Education and Training Programs:** A softer, but fundamental component is ensuring that human talent is up to the task of governing AI. The government could work with industry to promote education for board members, executives, and developers on AI ethics and law. FINMA's guidance already highlights upskilling staff about AI, including those overseeing outsourced AI services.

By embedding self-regulation into the fabric of AI governance, Switzerland can remain adaptive. If industry codes prove effective, they **could even be given legal weight**. Active industry participation in crafting these standards would ensure that the rules are practical and tailored to real operational needs.

3.5 Preserve Innovation-Friendly Conditions and Trust

SIX emphasizes that all proposals should work toward a dual goal: **preserving Switzerland's innovation-friendly environment while ensuring robust public trust in AI**. From our perspective, achieving this balance is critical to the sustainable growth of AI technologies within the financial sector and beyond. Specifically, we recommend the following measures to support this objective:

- **Support AI Research and Testing:** The government should continue initiatives and innovation programs like its Competence Network for AI (CNAI). A vibrant research ecosystem in AI safety, explainability, and fintech will feed into better industry practices and regulatory insight. Maintaining a strong linkage between policy and

research communities will help Switzerland strike the right balance in regulation.

- **Public Engagement and Transparency:** To build trust, policymakers and industry must engage with society about AI. This could involve publishing understandable guidelines on what rights citizens have regarding AI decisions and showcasing positive use cases for AI (for example, fraud prevention or efficiency gains that lower costs for consumers). The Federal Council explicitly listed public trust as a key objective, so tangible efforts here are worth being evaluated.
- **Leveraging Reputation as a Strength:** Switzerland can turn responsible AI governance into a competitive advantage. Just as Switzerland is known for strong data privacy and financial stability, it could also become known for trusted AI. Policymakers should message this clearly: AI developed or deployed under Swiss regulation will be of high integrity. For SIX and the financial sector, this reputation can attract global business. Early adopters of the new AI requirements might also gain reputational benefits, signaling to customers and partners that they uphold the highest standards.

These proposals aim to **balance innovation with trust**, ensuring that Switzerland remains a leader in both AI development and responsible governance.



4. Conclusion & Path Forward

Switzerland's AI regulatory journey is at a crucial stage. The groundwork, a clear strategic direction favoring innovation and targeted regulation, has been laid by the Federal Council. From the perspective of SIX, the **challenge now is in execution**: adaptation of existing legal requirements by means of technical and organizational measures accompanied by filling in minor regulatory gaps so that AI-driven technologies can flourish responsibly across the Swiss economy. Compared to the EU's stifling AI Act, the Swiss approach promises agility and sector relevance, but it must be assisted to avoid consequences of fragmentation.

A robust yet innovation-friendly AI framework will be essential to maintaining **global competitiveness**. The recommendations set out in this paper reflect SIX's commitment to helping policymakers devise a balanced and pragmatic regulatory response. By implementing the AI Convention's principles, aligning with international developments, and engaging industry in self-governance, Switzerland can achieve a pragmatic balance: safeguarding rights and trust without clipping the wings of technological progress.

Ultimately, SIX is convinced that efficient and effective AI regulation is not a constraint on innovation, but rather its enabler: providing the legal certainty and public confidence necessary for new AI solutions to be embraced. As Switzerland moves from principles to practice in AI governance, it could **set a standard** for mid-sized, advanced economies navigating the same terrain. A thoughtful legal framework for AI will ensure that the next generation of AI-enhanced financial services and market systems operate on a foundation of trust, transparency, and accountability to the benefit of both the industry and society at large.



This policy paper is part of a broader Strategic AI Framework by SIX and is complemented by two additional policy papers:

- One paper focuses on the EU AI Act, analyzing its implications and exploring options for technical adaptation and domestic legal integration within EU member states.
- The second paper emphasizes how industry-driven standards and best practices can supplement formal regulation, close practical implementation gaps, and foster trust in AI innovation (to be published soon).

These three papers together are intended to form a coherent basis for dialogue with policymakers, regulators, and industry stakeholders.

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