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# Imminent End of Secrecy to Shake Up Swiss Banking

By **MATTHEW SALTMARSH**

As Swiss lawmakers appear poised to resolve a tax dispute between **UBS** and Washington, one thing is becoming clear: an end to absolute banking secrecy will change the country's pre-eminent financial sector.

Niche private banks that previously specialized in undeclared assets in Geneva and Zurich will have to adapt, and some may fail, analysts and academics predict. Those that remain will have fewer assets to manage.

The changes are being wrought not only because of what is known in Switzerland as the UBS bill, which Parliament is expected to pass early next month. Several updated tax treaties with the United States, France, Germany and other countries, by promising government cooperation, also aim to dissuade would-be tax dodgers from trying to shelter undeclared assets in Switzerland.

"In my view, it's over, and it's not a bad thing," Luc Thevenoz, a professor of law at the University of Geneva, said of using Swiss banks to hide from the tax collector.

The switch was not Switzerland's idea. Its neighbors, painfully aware of the tax receipts they were losing, have been increasing the pressure for years. But it was not until the United States government threatened UBS, the biggest Swiss bank, with criminal prosecution slightly more than a year ago that the wall really began to tumble.

In August 2009, UBS agreed to disclose the names and accounts of 4,450 wealthy Americans suspected of evading taxes and to pay a \$780 million fine, in return for the suspension of United States legal action. But in February, Switzerland's top court said the deal violated Swiss law, prompting the Swiss government to seek retroactive approval from Parliament.

The Swiss are well aware of the stakes in the UBS case. Failure to back the settlement would probably reopen the lawsuit against UBS. The bank's license to do business in the United States could be revoked. The bank expanded in the United States with its takeover of PaineWebber in 2000; about 37 percent of its employees are in the Americas.

"There could ultimately be collateral damage across the field if this is not passed," said Martin Naville, chief executive of the Swiss-American Chamber of Commerce in Zurich. "If push comes to shove and Switzerland is declared a tax haven in the U.S., it would be very negative for Switzerland. U.S. companies would have to leave."

Switzerland is the host of regional operations for several American companies, including [Yahoo](#), [eBay](#), Caterpillar and [Microsoft](#). American companies directly employ about 70,000 people in Switzerland.

Failure could also accelerate new tax cases against other Swiss banks, though Mr. Naville said "there is no indication for now that any other Swiss bank was behaving in the systematic way that UBS was in the United States."

Not everyone in Switzerland is in favor of scrapping bank secrecy.

The largest group in Parliament, the nationalist Swiss People's Party, plans to vote against the UBS bill, which it views as an infringement of national sovereignty.

But three other parties appear ready to offer the support needed to pass the bill, although they are still jockeying over details, members of Parliament said. In particular, the Social Democrats, the main center-left party, are trying to exchange support for government concessions to tighten rules on bonuses and bank supervision.

Both issues have resonated in placid Switzerland, where citizens have been shocked by recent bank payouts — especially after a government bailout of UBS last year.

"I believe that in the end there will be a majority in favor, because most M.P.'s are aware that there would be serious repercussions if it doesn't go through," said Manuel Ammann, director of the Swiss Institute of Banking and Finance at the University of St. Gallen.

The Swiss economy leans heavily on finance. About 195,000 people, or 5.8 percent of the work force, are employed in the financial sector, which pays 12 percent to 15 percent of all taxes and contributes almost 12 percent of national income, according to the Swiss Bankers' Association.

The Swiss People's Party has said it might seek a referendum to restore banking secrecy in the next few years, but prospects for success appear limited for now.

In parallel, Switzerland has now signed at least 18 treaties with its most important partners,

which incorporate [Organization for Economic Cooperation and Development](#) standards on exchanging information on tax evasion and fraud, provided there are formal requests based on credible information.

This has removed the country from a so-called gray list at the O.E.C.D.

The Swiss have said they will not cooperate with cases involving data theft, which recently has become something of a cottage industry. In Germany, governments have paid for computer data stolen from Swiss banks, which they then used to pursue tax cheats. The French last year received a disk containing information on thousands of clients of [HSBC's](#) private banking business in Switzerland and have said they will use it to pursue investigations in France.

The Swiss banking sector still has significant strengths: a pool of experienced managers, linguistic skills, currency stability and low taxes.

But whether that will be enough to stanch a decline in assets managed is unclear.

In February, foreigners held 689 billion Swiss francs, or \$621 billion, in securities in Swiss custody accounts, down from a recent peak of 1.04 trillion francs in 2007, before the [financial crisis](#) and a [Group of 20](#) crackdown on tax havens, according to the Swiss National Bank.

Analysts point out that the figure has been stable since 2007, during a period of weakness in markets.

And despite its legal problems — and tens of billions in outflows over the last couple of years — UBS remains among the world's largest asset managers, with more than \$2.3 trillion under management.

"Switzerland remains very attractive for offshore wealth management, even in a fiscally transparent world," Mr. Thevenoz said.