

Swiss financial institutions rethink their policies towards Americans



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The call came to hundreds of Americans residing in Switzerland on a cold winter day a few years ago. “Do you have an American passport?” The response was blunt: “Sorry, bank policy requires we close your account.” That was it. Loyal customers were dropped like a stone in the midst of the tug of war between Swiss banks and the American government. Americans might be wanted and liked in Switzerland, but for many Swiss financial institutions, the regulations of the Securities and Exchange Commission and the Internal Revenue Service have rendered doing business with Americans a losing proposition. Many investment opportunities and financial services are planned intentionally without any American participation.

It is not just about Americans abroad. It is about global capital pulling back from the U.S. In 2000, over \$17 trillion were invested in the U.S. stock markets. In 2009, this was down to \$7 trillion. The world simply walked away and created more competitive ways to form and invest capital. Now a flood of legislation comes out of the U.S., focused on reporting and taxation of income earned abroad and spawning a growing and profitable business.

The firm aptly called U.S. Tax and Financial Services S.à.r.l. with offices in London, Zurich and Geneva is just one of those companies benefiting tremendously from the new U.S. and UK tax laws concerning taxpayers abroad. “Of 7,000,000 Americans abroad, only 460,000 file tax returns in the U.S.,” says Darlene Hart, CEO of U.S. Tax. There have been several laws passed, with names like H.I.R.E. and F.A.T.C.A. that create significant reporting requirements and substantial costs to financial institutions who wish to serve American clients or foreign nationals merely investing in the U.S. Thus the axe has fallen throughout Switzerland on American customers and U.S. source investments.

However, others have taken a different approach. A handful of advisory groups actually cater to the American client or offer SEC-compliant products to international investors. There is a cost, but they are ready to serve the market and bring in the business. That is particularly the case with Bank Frey, where American bank customers are a target market. Kaiser Ritter Partner advertises its American focus and other banks, like Pictet, provide services to Americans on a more discreet basis.

“It really is a clash of cultures”, says Markus Frey, a Zurich attorney with a family office and bank that bears the family name. Transparency

has come from the U.S. and has now been adopted by European nations with other traditions. “The tax reporting compliance in the U.S. is much different than in Europe, but the law fits the culture and size of the country.” So the rub really is not in doing business with Americans, but in adapting to the rules that come for doing business with them.

Those who want the business can adapt. Those who cannot, stand to lose a lot. Over 12,000 Americans live in the German-speaking part of Switzerland. This is in addition to the new crowd of Americans abroad, who now invest in Switzerland. That is not a small market and Americans are sending or bringing cash to Switzerland in spite of the new tax laws and reporting requirements.

This new group of investors comes to Switzerland as the land of investment opportunity. Tax, to the surprise of their European counterparts, is not the key issue. Transparency and reporting to the U.S. is no problem. Reporting to the American government is a hassle for all. It certainly raises additional questions for those who have not done so and places financial institutions at risk if they do not report properly. However, it can be done and done properly with the right understanding of the American tax law and a little more time and effort by local banks. America is not the first and will not be the last country to look abroad and see a source of potential tax revenue. For local institutions, many are thinking about making that adjustment and opening back up to their former American customer base.

There may continue to be a division between U.S. investors and others for securities compliance; however, Americans are reinvesting in Switzerland and the banks are responding. As a result, more institutions are rethinking their policies and ties to their former customers. It is simply good business.

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