

Limiting emergency law helps the financial center

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That the Federal Council has (again) used emergency law in the case of UBS/CS raises questions for the future of the Swiss financial center.



The Swiss financial center is currently experiencing an interesting and dramatic period. The application of emergency law not only raises questions. She is also dangerous. Because from emergency law to injustice, there is only one step. And where it reigns, no one wants to set foot there.

USING THE POISON CABINET

After resorting to emergency law in the context of the Covid case, the Federal Council is again resorting to the poison cupboard in the case of UBS/CS. It's unsightly and dangerous – also for the financial center as a whole. If (international) investors have to fear that the legal bases will also change overnight in Switzerland, this fuels fears that property rights may be affected.

Until now, investors active in the Swiss financial center could assume that the agreements applied unconditionally. The risk of a sudden change of government does not exist in Switzerland. The means of referenda and initiatives limit power. Unlike other countries, the opposition is not the government in the waiting room, but an integral part of the government.

In short, political stability has been an important asset of the Swiss financial center up to now. Indeed, Switzerland generally experiences sudden and decisive changes only when it is forced to do so.

RUSSIAN ASSETS AND BANK SECRECY

Examples abound to illustrate this thesis. With regard to the financial center, it is worth mentioning in this context the recent changes in the volume of Russian assets. With regard to the abolition of banking secrecy, which had important consequences, the impulses also came from outside. The finely balanced Swiss political system has nevertheless made it possible to move forward relatively pragmatically and quietly on these issues.

All is well as long as the political system plays in its diversity. Things get dangerous when shortcuts are taken. Recourse to emergency law is one of them.

This shows that as long as the established political mechanisms work, everything is fine. This becomes problematic when, due to outside pressure, one deviates from the usual, established and perhaps also a bit boring procedure. It was and undoubtedly is the case for CS.

WAS IT NECESSARY?

In mid-March, the Federal Council clearly came to the conclusion that the rescue of CS through emergency law was necessary to prevent the collapse of the entire global financial system. Was it really necessary? What is certain is that the markets calmed down very quickly. And it is equally certain that recourse to emergency law has shaken confidence in the reliability of the system in Switzerland.

In this context, who will be surprised that internationally active clients ask themselves what is the security of ownership in Switzerland? On paper, everything is clear: "Ownership is guaranteed. Expropriations and restrictions on ownership amounting to expropriation are fully compensated". But we all know it's not that clear and there are shades of gray.

In this context, the fear that Switzerland could once again resort directly or indirectly to expropriations via emergency law during a future crisis cannot be ruled out. It would not be the first time in history that a State had resorted to such means. In this logic, exceptional periods call for equally exceptional measures. In the context of monetary crises or an explosion of public debt, other countries have resorted to compulsory loans or other means from the poison cupboard.

There is nothing more volatile than capital.

Seen from today, this seems very unlikely for Switzerland. But who wants to exclude the unexpected and the improbable in our time? Changes regarding Russian assets or the adaptation of bank secrecy were also not expected in this form, even shortly before the changes in question. What is certain is that international investors are very sensitive to climate change. There is nothing more volatile than capital. In this context, the reports that Qatar wants to withdraw from the Swiss hotel sector are worrying.

What should be done? In general, it would certainly be very wise to ensure that the Federal Council can less easily resort to the instrument of emergency law in the future. Confidence in the Swiss financial center would undoubtedly be strengthened.



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Thomas Fedier is chairman of the board of directors of the wealth management company VT Wealth Management. He is a confirmed financial specialist whose voice has weight in specialized circles, in particular thanks to his publications. His long career in private banking, notably at Julius Baer, led him to hold executive positions and management activities in Switzerland and abroad, until he decided to found VT Wealth Management with Joseph A. Belle.



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