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Swiss Banks Avoid US in Wake Of Spat With IRS

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ZURICH (Dow Jones)--UBS AG's (UBS) high-profile spat with the U.S. Internal Revenue Service has made some of Switzerland's other banks wary of looking after U.S.-based clients, prompting some to stop taking money from Americans altogether and menacing the country's image as a private banking center.

UBS is currently locked in talks with the IRS which wants access to 52,000 client accounts in a move aimed at rooting out possible tax fraud, possibly breaching Switzerland's own banking secrecy laws.

Analysts expect UBS to pay a hefty settlement to resolve the matter before it goes to court, thereby protecting the identities of its clients.

But no matter what the outcome, some Swiss private banks now regard U.S.-based clients as an expensive liability.

Zurich-based Zuercher Kantonalbank no longer accepts business from U.S. clients, a spokesman for the state-controlled bank confirmed Friday.

Migros Bank, owned by Switzerland's largest retailer Migros-Genossenschafts-Bund, is still taking U.S. funds, but recently sent a letter saying that it can no longer correspond with clients on U.S. soil. "We wanted to ensure that we avoid any activity that could interpret Migros Bank as an active provider of financial services in the U.S.," bank spokesman Matthias Hunn said.

Though these are tiny banks in a country dominated by private banking giants UBS and Credit Suisse Group (CS), the moves underscore how high the IRS's pursuit of UBS client data has sent tensions in Switzerland.

One day after reaching a deferred prosecution with the Department of Justice, agreeing to pay a \$780 million fine and handing over 250 sets of client data, UBS was served with a so-called John Doe summons by the U.S. Most experts and analysts expect the case will be settled out of court before the two face off in Miami district court Aug. 3.

"There has been a complete over-reaction in my opinion on the part of Swiss banks, even if UBS's decision to discontinue its U.S. offshore business is understandable under the circumstances," said Alfred Mettler, associate professor at Georgia State University's Robinson College of Business.

The U.S. assertiveness in pursuing alleged tax cheats and what some experts predict will be a similar push from the European Union have sent Swiss banks hidebound from any sort of U.S. business, even in innocuous products such as children's savings accounts.

"For a reputable and honest client of 30 years to receive what amounts to a dismissal letter from their bank is completely incomprehensible, and this definitely chips away at the image of Swiss banks as solid and trustworthy partners," Mettler said.

As fear over further U.S. moves spreads, the Swiss-American Chamber of Commerce in Zurich said lobbying efforts are underway to end the blanket bans of U.S. business.

"It's too early to disclose specifics, but we are putting together a coalition of the private and public sector to try and find a solution," Chamber Chief Executive Martin Naville told Dow Jones Newswires.

Further out, the U.S. push on UBS will almost certainly translate into a revision of existing qualified intermediary, or QI, agreements, which govern what types of business foreign banks can undertake in the U.S.

Revised QI agreements are likely to contribute to an easing of tensions over American business in Switzerland as well, and prompt Swiss banks to adapt their rules accordingly.

"The financial industry hates nothing more than uncertainty, as the sooner the qualified intermediary agreements are revised, the better," Mettler said.

A spokesman for the IRS didn't immediately respond to a request for comment.

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