

FROM THE EDITOR

Swiss scandals could signal end of an era By Yuri Bender, Editor-in-chief

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The scandal surrounding the Hildebrands may mark a watershed in the relationship between Swiss bankers and politicians

The thorny subject of secrecy in wealth management hit the headlines once more at the start of the New Year in a financial and political scandal leading to the resignation of Swiss National Bank chairman Philipp Hildebrand.

The latest episode of the Swiss banking soap opera had several elements of interest to PWM readers. Firstly, the former SNB boss, whose family is alleged to have benefited from currency transactions which he says were not influenced by his monetary policy, was previously a hedge fund operator.

During the summer, the Swiss franc was at unsustainable highs and expected by many commentators to fall. Three weeks after a purchase of \$500,000 (€395,000) by Mr Hildebrand's wife, also a former hedgie, to apparently increase the Hildebrands' US dollar exposure, the SNB capped the 'Swissie' to stop a further rise. The dollars were eventually converted back into Swiss francs after the currency fell substantially against the dollar and leading to a boost in family finances.

Hedge fund traders, past or present, will always have the nose for a deal and spot any arbitrage opportunity. Are they bestsuited therefore to be associated with such economically-sensitive positions? Mr Hildebrand was cleared of any wrongdoing by the SNB in December, although he later found his position untenable following pressure to quit.

Secondly, other trades conducted by Mr Hildebrand, including purchases of chunks of Roche and Nestlé shares, may also have benefited from exposure to the Swiss franc. Indeed they showed his appreciation of latest thinking in portfolio management. Last year's pronouncements from Burkhard Varnholt, head of investments at Sarasin, the Hildebrands' family bank, centred on exactly this type of direct holding for private portfolios. Mr Varnholt talked about buying equity stakes in domestic Swiss stalwarts, which also benefit from their international outlook.

Following these lessons on the basics of arbitrage and portfolio construction, our attention is also drawn to the meticulous record-keeping of Felix Scheuber, the Hildebrands' adviser at Sarasin. His detailed "contact notes" are a fantastic advertisement for relationship managers at Sarasin, soon to be taken over by Safra Group, and mid-sized private banks in general. Their deep discussions were about markets, currencies and exposures, rather than stuffing the client's portfolio with inappropriate products.

Yet there is a more sinister side to this latest Swiss imbroglio, with Sarasin admitting an IT support worker leaked screen shots of the Hildebrands' portfolio holdings and associated currency transactions to a lawyer with close links to the country's right-wing Swiss People's Party (SVP). This led to a meeting with SVP National Councillor Cristoph Blocher, before the employee eventually "presented himself" to Zurich Cantonal Police on 1 January, according to Sarasin.

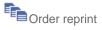
Just in case there is any doubt, we are told: "The Bank condemns the misuse of confidential bank data for political purposes in the strongest possible terms." Sarasin has since filed a charge with Zurich's Public Prosecutor's Office against the former employee for violating bank client confidentiality and commercial secrecy and also "against third parties" for inducement to violate confidentiality and exploiting breech of secrecy.



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"Many banks have now had former employees sell or divulge confidential data that has caused difficulties for the account holders and banks alike, and Bank Sarasin is no exception," says Zurich-based banking consultant Ray Soudah.

Each of these banks will have to work hard to repair their reputation, he believes. But there is a more long-lasting problem which will affect the Swiss banking industry as a whole and push some high earning officials into the arms of rival centres. The love affair between politicians and those in senior government roles on one side and the Swiss banking industry on the other may now be well and truly over.



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Mailing address: Financial Times Ltd, Number One Southwark Bridge, London, SE1 9HL, United Kingdom

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