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# The Swiss Observer

FOUNDED IN 1919 BY PAUL F. BOEHRINGER.

## The Official Organ of the Swiss Colony in Great Britain

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## SWISS BANKING SECRECY

Dr. E. F. Paltzer, General Manager of the Swiss Bank Corporation in Basle, addressed the Foreign Press Association in London at their meeting at the Dorchester Hotel on 21st March. The speaker expressed his appreciation of having been asked to address the gathering, on the great mystery of the Swiss banking secrecy. He thought that his explanations would prove to be a disappointment because the gnomes of Zurich had no devious little tricks to outsmart their foreign counterparts.

Dr. Paltzer mentioned that any custom was part of the habits of a country and of its way of life, and what its inhabitants had become accustomed to over the years and during generations. The Swiss were rather reticent, they did not like to have their private affairs spread out before the public eye. Since the speaker had lived for many years in the United States, he made a comparison with that country. "When you visit the residential part of any American town, you could imagine that you were walking through a park, because nowhere do you see any fences or walls closing in anyone's property, all the gardens are open to one another. How different is a similar part of a Swiss town. Here everybody wants to keep his property to himself; no sooner does he claim a piece of land as his own than he fences it in or builds a wall around it in order to hide it from the public gaze and keep it for himself. The Swiss feels in a similar way about his personal affairs. You may know him for many years but he will hardly confide to you what he owns and how wealthy he may be. How different from his American counterpart. Quite a few times I got to know after an airplane trip of a few hours what the American who occupied the seat next to me and whom I saw for the first and perhaps the last time in my life, what this American was worth and what his property consisted of and what smart investments he had made during his lifetime. This example may demonstrate how people in different countries approach the same subject in a different way and what may be considered as a sensible way to look at things, may be quite hard to understand in another country. Just as in this country it is quite natural to drive on the left, whereas for us Continentals it is very disconcerting.

"No banker could exist unless he commanded the confidence and trust of his customers. No customer would have confidence in his banker unless he could count on his discretion, in other words unless he was convinced that the banker would not divulge any details regarding his financial affairs except under the compulsion of the law. It is, therefore, not wrong to say that discretion is an essential element of banking in any country whose political system recognises the personal liberty of the

individual. Indeed, no bank in the western world is known which would divulge details about its clients' affairs without the client's explicit consent, unless it was forced to do so by the laws of the country where it is established. That the laws may differ from country to country is quite natural and that the duty of discretion of a banker may be defined more closely and in a more restricted way in Switzerland than for example in the United States is understandable considering the different background of the two countries.

"Switzerland has a tradition over many generations as a country of asylum for political refugees from foreign countries, be it the French Huguenots in the seventeenth century, be it the victims of the French revolution in the eighteenth and nineteenth centuries, be it political refugees during the middle of the nineteenth century, or be it the persecuted on account of race or creed during our own lifetime. The willingness to grant asylum and extend help to people persecuted in other countries and the sense of privacy of the Swiss individual, have led the Swiss to enforce by law the established custom that a banker has to observe absolute discretion about his clients' affairs. It was in the face of the economic espionage undertaken by the German Nazi regime, especially regarding funds held in Switzerland by their Jewish citizens, that Switzerland included in its Banking law of 1934 Article 47 which stipulates that anyone connected with banking in a professional capacity who deliberately commits a breach of the banking secrecy is liable to a fine of up to 20,000 francs or imprisonment for up to six months. Both punishments can be imposed simultaneously. If the culprit is found guilty of negligence only, the penalty is a fine of up to 10,000 francs.

"But before this legal injunction was ever laid on the banker and his employees, the banks had already taken steps to guard against any indiscretions being committed by members of their staff, even unintentionally. This was the origin of the apparently mysterious numbered account. It was instituted not to attract customers to the bank, but to shield the identity of those who were already customers, or in other words, to take into account the varying requirements of customers and give an assurance as far as humanly possible that no information regarding their affairs would be revealed to what was a ruthless foreign power. Numbered accounts are not protected by any special banking secrecy. The legal obligation of a banker to supply the authorities with information applies just as much to numbered accounts. Two or three people in the bank concerned know the name of the owner of the assets deposited and whoever has powers of administration over them. The designation of an account merely by a number enables the knowledge of these

identities to be kept to just a few employees of the bank, and is thus merely a technical measure to reduce the danger of indiscretion.

"It is often thought abroad that the duty of a Swiss banker to preserve secrecy is absolute, but this is, of course, quite wrong. In all cases where it is in the public interest to sacrifice banking secrecy, the banker is bound to give information. Such a situation could arise in civil law cases concerning for example wills, the prosecution of debts, bankruptcies, etc. But it is in criminal cases and tax offences where the limits of banking secrecy are most called in question. As far as criminal law is concerned, the obligation of a banker to testify usually takes precedence over his duty to preserve secrecy. This obligation, however, is limited in various respects. It is confined to cases brought before an independent judicial authority which constitute offences under Swiss penal law and does not go beyond matters directly concerning the accused. The obligation of a banker to give evidence also applies to requests of other countries with which Switzerland has an agreement to give assistance in legal cases, provided a Swiss court of justice rules the offence concerned to be also a punishable offence according to Swiss law. It is most of all in tax cases that attention is focussed on Swiss banking secrecy. Swiss tax laws recognise the duty of a banker to preserve secrecy, since the view is taken in Switzerland that it is the responsibility of the individual to make his own tax return to the authorities and that third parties should not be brought into the matter. The tax-payer himself must obtain the necessary documentary evidence of his income, such as a salary declaration from his employer or a list of his security holdings from his bank. Switzerland adopts a corresponding attitude towards foreign tax authorities, since it is obvious that information which is withheld from Swiss authorities is not going to be revealed to foreigners.

"Admittedly, the legal force given to banking secrecy has contributed to the importance of Switzerland as an international financial centre. But this development would not have been possible without a number of other prerequisites, among which, in particular, is the stability of Switzerland's political, economic and social conditions. Although the Swiss franc has not been spared to a certain extent the general depreciation in the value of money, the high gold reserves of 12 billion francs held by the Swiss National Bank and the fact that notes in circulation are backed by a gold cover of about 120% gives solidity to Swiss national currency. The rise of Switzerland as an international financial centre has also been helped by the lack of any restrictions on the movement of capital. Finally, there is a highly developed banking system, and Swiss banks in general have a very good name. It is clear from what has been said that banking secrecy is only one of many factors which have enabled Switzerland to reach her present-day position as a financial centre."

The speaker hoped his brief remarks had made it plain that the institution of banking secrecy in Switzerland stemmed from the attitude of the individual towards the State. "The protection of private property and personal rights is one of the cornerstones of the Swiss constitution, but it can only be achieved through discretion and this is where banking secrecy is so important. There may well be isolated instances where it has served to cover up some fishy deal or other, but responsible Swiss banks do not touch that sort of business, and such mischances as do occur are no reason to sacrifice the principle of banking secrecy.

"Just as with other laws, the banker must, within the limits set by legislation, decide for himself what is admissible and what is inadmissible in matters of banking secrecy. You may rest assured that the Swiss banks are well aware that honesty is the best policy."

## SWISS ATOMIC CLOCKS THROUGHOUT THE WORLD

The Swiss watch factory of Patek, Philippe recently installed, on the façade of its premises in Geneva, a clock whose timing is more accurate than the rotation of the earth even. In fact, the daily period of rotation of the earth may vary by a hundredth of a second, while the new Patek, Philippe clock — which contains about 100 transistors and diodes and is controlled by the atomic master clock at Neuchâtel Observatory — has a precision that is higher still. It is more precise than all previous clocks made by this firm, i.e., in particular, the one that was used at the Swiss National Exhibition in Lausanne in 1964, the one at the New York World's Fair, and the one installed in the Timekeeping Centre of the Swiss Pavilion in Montreal, which set the time for all the official clocks at that exhibition. In addition, it is even more precise than the timing system supplied to Radio Vatican in the summer of 1967, which comprises over 1,000 diodes and transistors. The Vatican timekeeping centre consists of two master clocks permanently checked by a system of mutual supervision and containing two quartz oscillators kept at a constant temperature of 50°C, guaranteeing accuracy of timing as great as one thousandth of a second per day. The master-clock system controls the timing of several hundreds of secondary clocks (max. 1,000), timing switches, signalling clocks, and broadcasting of radio time signals, etc.

[O.S.E.C.]

## THE QUARTZ WRIST-WATCH

The Electronic Watchmaking Centre Co. Ltd. (EWC), a collective research organization set up by the Swiss watchmaking industry, has just presented its first quartz wrist-watch, the fruit of six years' research. This remarkable step forward has been achieved by combining a quartz suitably sized for watchmaking with miniaturised circuits. The quartz crystal which, in this watch, replaces the classical regulating organ, is — next to the atomic clock — the most precise time standard in existence. EWC's research workers had to produce specially for the purpose a number of miniaturised integrated circuits satisfying the exacting demands of the watchmaking industry, viz., very low consumption of electricity and small dimensions. The great achievement of EWC's research workers lies in the fact that they succeeded in scaling down to wrist-watch size a timekeeping appliance whose principles have been known for a long time but whose size prevented it from being worn. At Neuchâtel Observatory's 102nd Timekeeping Competition in 1967, the results of which were announced at the beginning of 1968, EWC quartz wrist-watches were twelve times as accurate as the best chronometers of traditional design. The first ten places were all won by ten watches presented by EWC, the eleventh being taken by a watch of the same type presented by a Japanese manufacturer. The Swiss watchmaking industry has thus shown that it is now capable not only of mastering the problems of precision and miniaturisation in a mechanical watch, but also of overcoming the same difficulties in the electronic field.

[O.S.E.C.]