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UBS-IRS Deal Uncertain after Swiss House Rejection

In the latest development of the much publicized American Swiss deal in which UBS bank agreed to disclose details of 4,450 of its American account holders the IRS suspects of dodging taxes, the Swiss House of Representatives voted against it as it directly violates the 1934 Swiss Bank Secrecy Law. The vote against the deal was passed on a 104 to 76 vote in the Swiss House of Representatives. The move was opposed by the majority Swiss People's Party and the centrist party, the Swiss Democrats.

Last week, the Swiss Senate approved the deal but it needs both houses to grant its approval before it can be formally set in motion. A second vote will be put in motion soon. If the same outcome takes place, it would then be put to a national referendum to decide its fate. If a national referendum is called for, it is largely expected that the outcome would not allow the UBS-IRS deal to meet the August 2010 deadline of handing over the details of the depositors. Thus a national vote is seen as the death knell to the UBS-IRS agreement. Furthermore, reliable sources on the ground predict that the agreement will be defeated in any national referendum, with a majority of the Swiss populace seeing the agreement as a result of the self-inflicted actions of UBS and the audacious threats to Swiss sovereignty imposed by the IRS and the American government.

The whole fiasco began when investigations showed UBS had covertly assisted many of its wealthy American depositors in stashing their assets in the bank to avoid paying taxes. The US Justice Department sued the bank over this matter. Subsequently a Miami court fined the bank \$780 million and eventually the bank agreed to disclose details of their account holders suspected of tax evasion.

But in Switzerland, the Swiss Federal Administrative Court twice ruled that the arrangement was illegal because it violated the Swiss banking secrecy laws and denied the account holders the right of appeal guaranteed by Swiss law. In view of that, the Swiss government had no choice but to seek approval from Parliament.

However, the Swiss Federal Council politicians believe that reneging on the deal would damage Switzerland's reputation as a nation that follows through on its commitments. Many of these politicians are afraid the IRS and the US government would add Switzerland on their tax haven

blacklist. Meanwhile, IRS Commissioner Doug Shulman is still hopeful the deal will be carried out by its August deadline.