

Bond programmes and the issuing vehicles

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

Both groups finance themselves through several issuing entities whose location follows the market concerned. Roche has used Roche Holdings, Inc. in the United States for dollar bonds and a financing company in the Netherlands, Roche Finance Europe B.V., for issues in euros. Swiss franc bonds have been issued directly by Roche Holding AG or by Roche Kapitalmarkt AG. Bonds issued by subsidiaries are generally guaranteed by Roche Holding AG, so that investors are exposed to the credit of the parent company. This structure allows each issue to be documented under the law and market practice that investors in the relevant market expect.¹

Novartis follows a similar pattern. Dollar bonds have been issued by Novartis Capital Corporation in the United States, which files registration statements with the Securities and Exchange Commission, while euro bonds have been issued through Novartis Finance S.A. in Luxembourg under a euro medium-term note programme. Swiss franc bonds have been issued by Novartis AG itself. In each case Novartis AG acts as guarantor where the issuer is a subsidiary. The group also maintains commercial paper programmes in the United States and in Europe, which it uses for short-term liquidity management and as bridge financing for acquisitions.²

The use of separate financing vehicles has tax and regulatory reasons in addition to market practice. Swiss withholding tax at 35 per cent applies to interest on bonds issued by Swiss residents, which makes bonds of a Swiss issuer less attractive to foreign investors who cannot easily reclaim the tax. Bonds issued by a foreign subsidiary with a guarantee from the Swiss parent can avoid this withholding tax, provided the proceeds are not channelled back to Switzerland in a way that the Federal Tax Administration regards as abusive. The rules on such structures have been relaxed in stages. The debate on reforming Swiss withholding tax on bond interest, which failed in a popular vote in September 2022, is relevant to the choice of issuing vehicle.³

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Swiss franc bonds nevertheless remain a regular part of the funding mix. They are attractive to Swiss pension funds, insurance companies and asset managers that need high-quality franc assets and can reclaim withholding tax without difficulty. Because Swiss interest rates were very low and at times negative between 2015 and 2022, both groups were able to raise franc funding at exceptionally low cost, and some franc bonds of Roche and Novartis were placed with coupons close to zero. The domestic market thereby provided a cheap source of finance for the franc-denominated part of the groups' costs.⁴

1 Notes

1. On the issuing entities of the Roche group, including Roche Holdings, Inc., Roche Finance Europe B.V. and Roche Kapitalmarkt AG, and the guarantees given by Roche Holding AG, see the bond prospectuses and the debt information on the Roche investor relations website. Entity names and guarantee structures to be verified. ↩
2. On the issuing entities of the Novartis group, including Novartis Capital Corporation, Novartis Finance S.A. and Novartis AG, and on its commercial paper programmes, see the Novartis annual reports, Form 20-F filings with the US Securities and Exchange Commission and the debt information on the Novartis investor relations website. To be verified. ↩
3. On Swiss withholding tax on bond interest under the Federal Act on Withholding Tax (VStG), the practice of the Federal Tax Administration on guaranteed bonds of foreign subsidiaries and the rejection of the reform of withholding tax in the popular vote of 25 September 2022, see the official materials of the Federal Tax Administration and the Federal Chancellery. To be verified. ↩
4. On Swiss franc bond issues of Roche and Novartis during the period of negative interest rates in Switzerland (2015–2022), see the SIX Swiss Exchange bond listings and the issuers' press releases. Coupons and amounts to be verified. ↩

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