

Financing the chemical industry

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

The Basel chemical companies financed their growth largely from their own profits. The profitability of the dye business and later of pharmaceuticals allowed them to reinvest a large share of their earnings in research, production and international expansion. They maintained substantial reserves, often hidden in their balance sheets under the generous accounting rules of the time, which allowed them to survive crises and to finance long-term projects without depending on banks or capital markets.¹

The companies also used the capital market. Ciba, Geigy and Sandoz were joint-stock companies whose shares were listed on the Basel and Zurich stock exchanges and held by Basel families, institutional investors and the public. They issued new shares and bonds when they needed capital for major investments, issues that the Basel banks underwrote. The relationship between the chemical companies and the banks was close: bankers sat on the boards of the chemical companies, just as chemical industrialists sat on the boards of the banks.

The hidden reserves of the Swiss chemical companies became a subject of criticism in the second half of the twentieth century, when international investors demanded greater transparency. The Swiss accounting law allowed companies to undervalue their assets and to build reserves that did not appear in their published accounts, which protected them against bad years but deprived shareholders of information about the true value of their investment. The revision of the Swiss accounting law in 2013 and the adoption of international accounting standards by the large listed companies, which Roche and Novartis apply, have largely ended this practice for the large companies, although the Swiss Code of Obligations still allows the formation of hidden reserves in individual financial statements.²

1 Notes

1. On the self-financing of the Basel chemical companies and their use of hidden reserves (stille Reserven) under Swiss accounting law, see the literature on the history of Swiss corporate finance. To be verified. ↩
2. On the revision of Swiss accounting law in force since 1 January 2013 (Art. 957 ff. CO) and the continued possibility of hidden reserves in individual statutory accounts (Art. 960a para. 4 CO), and the application of IFRS by Roche and Novartis, see the relevant legislation and company reports. To be verified. ↩

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