

Exchange controls and the standstill agreements

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The crisis of 1931 had another important consequence for the Swiss banks: the introduction of exchange controls in several countries, Germany in particular. The claims of foreign banks on Germany were frozen, and standstill agreements organised their gradual repayment.¹ The Swiss banks, heavily exposed to Germany, saw part of their assets immobilised for years.

From the mid-1930s onwards, trade between Switzerland and Germany was organised through clearing agreements, which settled payments through centralised accounts in place of free currency transfers.² This system, which spread across Europe, fragmented the markets and subjected international payments to administrative controls.

For the foreign clients of the Geneva banks, in particular those resident in countries subject to exchange controls, holding assets in Switzerland became at once more valuable and more risky. More valuable, because those assets escaped the restrictions of their own country. More risky, because holding them could constitute an offence under that country's legislation. The bankers had to come to terms with this situation, which foreshadowed the dilemmas of the Second World War.

Caution. Exchange controls and transfer restrictions imposed by foreign states place banks in a delicate position, since the assets of their clients may contravene the laws of the country of residence. The question of whether assets comply with the legislation of the client's country, first raised in the 1930s, has become in the twenty-first century a central requirement of wealth management.

1 Notes

1. Wikipedia (en), "European banking crisis of 1931": suspension of the convertibility of the Reichsmark and capital controls from 15 July 1931; standstill agreements with the creditor countries in August–September

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1931; ICE, La place financière et les banques suisses, summary (uek.ch): Germany's international creditors agreed not to withdraw their short-term loans; the agreement was "renewed annually by all creditors until 1939; thereafter it was renewed only by a few countries (United States, Belgium, Netherlands, Switzerland) and after 1941 only by Switzerland". ↩

2. ICE, La place financière et les banques suisses à l'époque du national-socialisme, summary (uek.ch, publication 13): "All these payments were regulated by the clearing agreements from 1934 onwards"; the Banque d'escompte suisse was liquidated in 1934 and the Banque populaire suisse received CHF 100 million from the Confederation. ↩

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