

How money crossed the border

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

The techniques of capital flight from Italy to Ticino in the 1920s and 1930s were simple and in principle the same as after 1945. Banknotes, gold coins and bearer securities could be carried across the border by the owner, by a trusted employee or by a professional courier. Italian lire deposited in Lugano could be exchanged into francs or sold to Swiss residents who needed lire for purchases in Italy. Compensation arrangements allowed an Italian resident to pay lire in Milan to a person who credited the equivalent in francs to the resident's account in Switzerland, so that no money physically crossed the border. Italian companies could invoice exports below their value and leave the difference in a Swiss account, or overinvoice imports from a Swiss intermediary. Each of these methods violated Italian currency law once it was in force. None of them violated Swiss law, provided that Swiss customs and Swiss taxes were respected.¹

The Swiss side of the transaction was legal in itself. A Swiss bank that accepted a deposit from an Italian resident committed no offence under Swiss law, even if the deposit had been exported in breach of Italian law. Swiss courts did not enforce foreign public law, including foreign currency and tax law, and Swiss authorities did not grant mutual assistance in fiscal and currency matters.² This principle, which Swiss law maintained until well after the Second World War, was the legal foundation on which the Lugano financial centre grew. It also created the moral and legal tensions that Chapters D.III, D.IV and E.II discuss: between a Swiss bank's legitimate acceptance of foreign money and active assistance in the violation of foreign law.

1 Clearing, credits and the regime's own needs

The Fascist State itself needed Switzerland as a financial partner. After the collapse of the international monetary system in 1931, trade between countries with exchange controls was increasingly settled through bilateral

clearing agreements. Switzerland concluded the world's first bilateral clearing agreements with Austria and Hungary in 1931, and the most important of these agreements were those with Nazi Germany and Fascist Italy.³ Under a clearing agreement, Italian importers paid lire into an account in Italy and Swiss exporters received francs from a Swiss clearing office, so that trade could continue without the free transfer of currency. The Swiss Clearing Office (*Schweizerische Verrechnungsstelle*) was created in 1934 for the administrative management of these transactions.⁴ In August 1940, after Italy's entry into the war, Switzerland granted Italy a credit of CHF 75 million for deliveries of arms and munitions, which was doubled in the following year.⁵

The coexistence of the two systems explains much of the later development. Officially, Italian trade with Switzerland passed through clearing accounts and authorized channels. Unofficially, Italian residents and businesses continued to move private funds into Swiss francs whenever they could. The regime tolerated some of this flow when it served its own needs, for instance when Italian companies or agencies held funds in Switzerland to pay for strategic imports, and repressed it when it threatened the reserves. The Lugano banks, with their Italian owners and Italian-speaking staff, stood at the junction of both systems.

In figures. The pound sterling cost about 120 lire in July 1924 and 153.68 lire in June 1926. After Mussolini's Pesaro speech of 18 August 1926 it fell to 88.09 lire by the end of June 1927.⁶ The *Prestito del Littorio* raised 3.15 billion lire.⁷ Swiss credits to Italy reached CHF 75 million in August 1940 and were doubled in 1941.⁸ The German Reich flight tax of 8 December 1931 took 25 per cent of the assets of emigrants with more than 200,000 Reichsmarks.⁹

2 Notes

1. The description of the techniques is a summary. On the later practice of cash couriers and compensation transactions see Chapter D.II and the definition of prohibited assistance in Art. 50 of the Swiss Banks' Code of Conduct (CDB 20), discussed below. ←
2. Federal Act on International Mutual Assistance in Criminal Matters of 20 March 1981 (IMAC), SR 351.1, Art. 3(3), English text at <https://www.droit-bilingue.ch/en-de/3/35/351.1-3-7.html>: requests are denied for acts that appear aimed at reducing fiscal duties or taxes or that violate regulations on currency, trade or economic measures, subject to the exceptions for duty or tax fraud. For the period, Wikipedia (French), "Affaire de la Banque commerciale de Bâle",

https://fr.wikipedia.org/wiki/Affaire_de_la_Banque_commerciale_de_B%C3%A2le (consulted as a last resort): in 1932 "la demande d'entraide judiciaire adressée par la France est rejetée par le Conseil fédéral au titre de la protection de l'économie nationale". ↩

3. Martin Meier, "Clearing", in HLS, version of 18 December 2003, <https://hls-dhs-dss.ch/de/articles/013779/>. ↩
4. Meier, "Clearing" (above). ↩
5. Cerutti, "L'Italia fascista e la Svizzera" (above): credit of 23 August 1940 of 75 million francs, doubled the following year, for "fornitura di armi e munizioni per l'esercito italiano". ↩
6. Wikipedia (Italian), "Quota 90" (above). ↩
7. Wikipedia (Italian), "Quota 90" (above). ↩
8. Cerutti, "L'Italia fascista e la Svizzera" (above). ↩
9. Wikipedia (English), "Reich Flight Tax" (above). ↩

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