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technical news

Knightsbridge Wealth

For professionals working with international clients

Suisse Secrets

A massive data leak from the Swiss banking giant Credit Suisse has revealed details of 18,000 bank accounts, and 30,000 account holders, stretching back decades and holding more than $100bn in all. Some of the account holders are individuals, others are corporations, and 160 nationalities are represented. The sums involved are vast: the average account held about CHF7.5m at its largest point (about £6m, or more than $8m), and more than a dozen held over $1bn.

The anonymous leaker, who is a current or former employee of the bank, approached the journalists behind the Panama Papers and Pandora Papers data dumps over a year ago. Since then, a team of journalists from an international consortium of newspapers (including The Guardian and The New York Times) has been investigating and checking the data – and this week published a selection of findings.

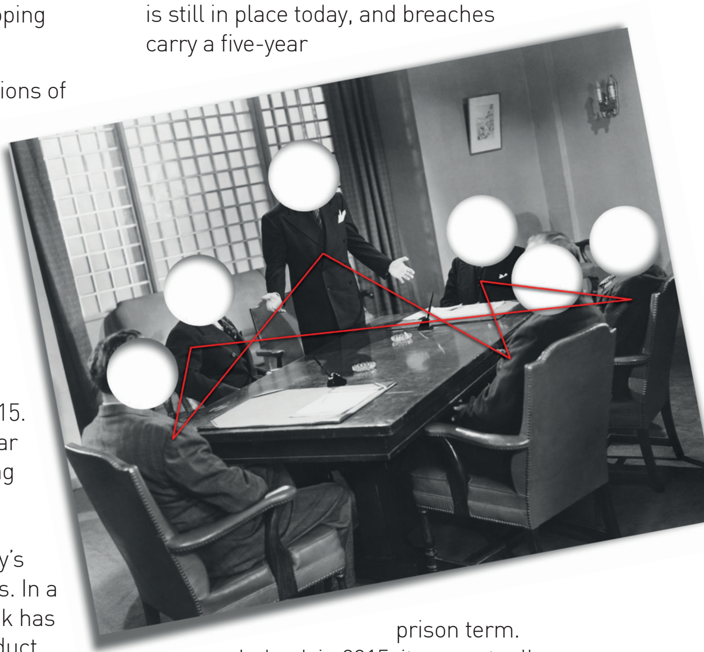
They discovered that scores of criminals have been accepted by this particular Swiss bank as clients. An executive of a multi-national company in Nigeria had accounts containing tens of millions of Swiss francs, and still had them almost a decade after being exposed in a major corruption scandal. The head of an Asian stock exchange, opened an account a decade after being jailed for taking bribes. And the boss of an eastern European cocaine-smuggling cartel, was allowed to open an account despite a long history of financial scandals in the US. According to prosecutors, it was then used to launder drug money.

This is probably not surprising. But it's still grim that a major financial institution lets clients stash away laundered or stolen assets. The anonymous leaker specifically blames Swiss legislators for permitting an "immoral" situation that "enables corruption and starves developing countries" of tax.

Credit Suisse rejected allegations of wrongdoing or lack of due diligence and said that the matters raised are "predominantly historical". It says that around 90% of the bank accounts covered by the leaks are now closed or were in the process of closure prior to press enquiries – and that 60% of those were closed prior to 2015. Yet the "Suisse Secrets" are far from the only scandal involving Swiss banks in recent years. In February, for example, the first Swiss bank in the country's history faced criminal charges. In a 500-page indictment, the bank has was accused of failing to conduct adequate checks on members of a Bulgarian mafia and drugs smuggling gang who used the bank to launder millions of Euros between 2004 and 2008.

Why is Swiss banking so secret? The tradition dates from the late 17th century, when France's Catholic kings began using the banks in Geneva – a French-speaking city-state just across the border– to conceal their dealings from France's own Protestant-dominated banking system. By 1713, the city authorities in Geneva had developed rules banning bankers from revealing details of their clients. That centuries-old code of silence was enshrined in law by the modern Swiss state in 1934, with its infamous Banking Law, which compels bankers to respect confidentiality.

That law was originally designed to contain mounting international concern over Switzerland's involvement in tax evasion. But it had the effect of attracting despots, thugs and tax evaders for decades to come. The law is still in place today, and breaches carry a five-year



prison term. Indeed, in 2015, it was actually strengthened, so that it now applies not just to bankers and other insiders, but to any third party who "reveals" or "exploits" a secret from within a Swiss bank. That's got journalists spooked, and no Swiss papers risked publishing these particular leaks.

The Swiss agreed to open up to a point. In its statement rejecting the leaker's claims, Credit Suisse said that the leaks were designed to discredit both the bank and "the Swiss financial marketplace, which has undergone significant changes over several years". The changes referred to are those agreed in 2014, and enacted in 2018, when Switzerland agreed to join around 100 countries to sign up to a global exchange of information about their respective taxpayers for the first time. In signing up to the so-called common reporting standard (CRS), Switzerland was bowing to years of concerted international pressure (and gigantic fines from US regulators) that had intensified since the financial crisis of 2007-2008.

The move all but ended the allure of Swiss secrecy for tax-evaders from rich developed countries. But there's an important caveat.

More than 90 countries, including many lesser-developed economies, are not part of the deal. For them, nothing has changed. Swiss bankers are still helping the wealthy in those countries to hide their assets form the tax authorities in their own countries. Banking secrecy is not dead, argue critics – it has merely morphed into a so-called "zebra strategy", in which Swiss banks are closing the door to money from rich industrialised nations, but left the door open to the rest of the world. Meanwhile, other financial centres that offer significant secrecy benefits to the super-rich have grown in importance – such as Singapore, dubbed "the new Switzerland." and London.

Switzerland has been famed for discreet bankers for more than 300 years. But these days, it's one player among many.

Balancing pensions and mortgages

People will be paying back their home loans well into retirement in the next few decades.

Almost one in ten people who have reached retirement age are still repaying their mortgage, according to the Great British Retirement Survey. That figure is likely to rise. People are only getting onto the housing ladder in their 30s or 40s and lenders are increasingly offering very long-term

deals. Late last year, Kensington Mortgages launched a 40-year home loan.

Mortgage borrowers need to plan their retirement carefully. A 30-year old earning £27,500 is on track for a pension worth around £190,000 if they pay 8% of salary into a workplace scheme until the age of 68. But if they are repaying a mortgage until age 75, once in retirement they would need an annual income (on average) of around £19,000 from that pot to cover living costs and monthly repayments. Their savings would be exhausted by the time they were 75, leaving them dependent on state pensions.

Mortgage borrowers in this position do have some options. It may be possible to continue working – perhaps part-time - until the mortgage is repaid. Another possibility is using the tax-free cash lump sum to reduce the size of the mortgage, or even pay it off altogether. When cashing in a private pension, savers are usually entitled to take up to 25% of the fund in cash, with no tax to pay. While this will reduce the annual income earned from the fund, it could provide a useful slug of capital to cut the mortgage debt.

Equity-release products could also help. These plans, aimed at homeowners over the age of 55, enable clients to unlock the value tied up in your house. They get a lump-sum payment, which doesn't have to be repaid until they die or sell the property when moving into a care home. The lump sum can be used to pay off the conventional mortgage.

None of these strategies come without downsides. A client may not be able or willing to continue working into retirement years. Using the lump sum to repay a mortgage means the money is gone, and will result in a lower pension income.

As for equity-release plans, these can prove costly in the long run. While repayments aren't paid during a client's lifetime, they are charged interest on the money unlocked from homes, with charges mounting until the debt is settled. There may be little left from the sale of your property for heirs.

Some may have no choice but to take on a mortgage scheduled to run well into retirement years, but contingency plans need to be made and acted on. For instance, overpaying the mortgage, as circumstances allow, will enable clients to repay the loan more quickly. Increasing retirement savings, if possible, also makes sense. It will be worth talking to Knightsbridge Wealth about the best option for your client's specific circumstances.

Stricter rules for foreign UK property owners

People from all over the world own UK property and those who want to protect their privacy often do this through an overseas entity, usually a company. There are currently 93,877 properties owned in this way in England and Wales according to Land Registry data.

During the past 10 years, 58,426 such properties have been added. Keeping your name off public records comes at a cost: non-resident companies automatically pay 15% Stamp Duty Land

Tax (SDLT) when buying residential property of over £500,000. Personal buyers pay the maximum rate of 12% on property values of £1.5m - though most personal buyers in the UK pay just 2% or 5%.

There is nothing wrong with owning UK property via an overseas company, as there can be legitimate commercial or personal protection reasons involved. The Economic Crime (Transparency and Enforcement) Act 2022 received Royal Assent in March: the aim is to increase transparency. The Act introduces a new requirement for overseas entities owning UK property to register at Companies House and provide details of beneficial owners. Criminal offences may be committed by those who fail to comply or who provide incorrect information. The register will be publicly available at Companies House. However, HM Revenue & Customs will have access to more details than are publicly available and will be able to cross reference this against other government databases. It is therefore prudent to check that both companies and beneficial owners are UK-tax compliant in all periods since the property's original acquisition.

The new law builds on a 2016 requirement for corporates to declare at Companies House who exerts significant influence and control. The intention is to make it easier for everyone to know who is the ultimate beneficial owner of UK land interests, and dissuade those planning to buy UK property with illicit funds. HMRC, the police and other enforcement agencies consider that overseas entity ownership of a UK property can be used to conceal crime, such as tax fraud and money laundering, so will take a keen interest in the companies that now register.

HMRC will feed the information into its Connect system, the data mining technology used to analyse all taxpayer data. This includes the Common Reporting Standard data on financial accounts and transactions from overseas banks and open-source data to identify cases for further investigation. For example, HMRC is likely to investigate if individuals living in the property are UK-resident for tax purposes. If they are, UK tax may be due on their worldwide income. HMRC can also assess whether there were taxable "remittances" (usually money transfers) to the UK by non-UK domiciled individuals. Questions about the source of funds to purchase a property can often arise. Overseas landlords will be taxable on UK rental income.

The new register will give the authorities more data to track UK property and its owners than ever. HMRC will also want to check whether any annual tax on enveloped dwellings (ATED) is due; this is generally payable on residential property with a value of more than £500,000, where an individual occupies a UK property and is connected to the company that owns it. The new law applies to overseas companies, partnerships, and foundations. Overseas trusts owning UK land directly — without another entity in the ownership structure — are not required to register with Companies House. These trusts already register and declare beneficial owners under the HMRC's Trust Registration Service. The requirement to register will apply to freehold property and land, and leaseholds of longer than seven years. When in force, overseas entities must register before acquisition. Transitional rules broadly require registration within six months of the rules coming into force.

Under the Act, officers of overseas companies must take reasonable steps to identify any registerable beneficial owners and provide the information to Companies House, complete an annual return and request removal from the register at the appropriate time. Overseas entities must issue "information notices" to anyone that they know or have cause to believe are beneficial owners, and the recipient must respond within one month. Share ownership or voting rights of more than 25% will put someone in the "beneficial owner" category, along with all directors. Failure to register is a criminal offence for the overseas company's directors. Other offences can be committed by the beneficial owners for failure to comply.

For those who have not complied with tax rules, full voluntary disclosure to HMRC is the best approach. It is sensible to take expert tax advice: there may be penalties but disclosure usually minimises these. Current UK tax rules mean that where a property is sold by an overseas company, there will be UK tax issues to consider from capital gains tax for the company to possible ATED charges. If the owner wants to "de-envelope" the property and hold it in their own name in future, then there is also the stamp duty to consider and possibly an income tax charge if the property is simply transferred to the owner -likely to be treated as a dividend "in specie". The new register will give the authorities more data to track UK property and its owners than ever before.

A shameful legacy in Hong Kong

A chill has descended upon Hong Kong's capital markets. Total fundraising from initial public offerings (IPOs), follow-on share sales and convertible bonds in Hong Kong fell 87% to $4.9bn in the first quarter of 2022. The local Hang Seng index has tumbled 30% since a recent peak in February 2021, whilst the Hang Seng tech index is down 44% over the past year..

Two crushing years of the pandemic accompanied by excessive Covid-19 measures have sapped Hong Kong of much of its vibrancy and resilience. Strict border controls have made it difficult to do business, prompting the likes of Citigroup and JPMorgan Chase to quietly relocate some of their staff. Banking executives still say they think the city will remain a financial hub for Asia and a launching pad into China, but it isn't as international and diverse as it once was.

Hong Kong's leader Carrie Lam has announced she will not seek a second term in office. Lam was at the helm during a time of mass unrest and helped usher in new laws that eroded the territory's civil freedoms. Massive pro-democracy demonstrations, of the kind that had prompted Lam's predecessors to resign, led under Lam to greater Chinese control in Hong Kong. Lam refused to answer questions about her decisions or the role she played in events.

She did, though, pay tribute to her backers in Beijing. Her governance style came to epitomise how the administration of Hong Kong – which was promised a high degree of autonomy after the 1997 handover from Britain – had become more overtly wedded to Beijing and less responsive to local sentiment. That is now unlikely to change, whatever the cost to Hong Kong's standing as an international financial hub. Hong Kong has, for example, isolated itself internationally, contrary to its economic interests and professed ambitions as a global financial centre, in conformity with Beijing's zero-Covid policy.

As for who will succeed her, the signs are hardly encouraging. John Lee is the lead candidate – a former policeman, he would probably be a willing enforcer of Hong Kong's new totalitarian regime. Another candidate is the former leader CY Leung. It was under his leadership that major protests first broke out in 2012 and 2014. He is nearly as unpopular as Lam among the Hong Kong people and is more ardently pro-Communist. Lam paved the way for a Hong Kong that has "changed fundamentally for the worse.

Lam will go down in history as Hong Kong's 'chief executioner'. Perhaps some day she'll say, when it's safe to do so in exile, that she had little choice given Beijing's orders." But she could have resigned rather than follow those orders, which would have been a significant symbolic statement. Her biggest offence, though, may be that she and other Hong Kong officials continue to pretend that Hong Kong retains its autonomy and independent rule of law. Beijing will appoint her successor, and repression is now part of the job description.

Russian sanctions to harm the US Dollar

The West's decision to sanction Russia's central bank raises deep questions about the future of the global monetary system. The US and its allies have frozen Moscow's access to more than half of its $630bn in foreign reserves in response to its invasion of Ukraine. The implication that reserves held by unfriendly governments can be seized or restricted is likely to drive a shift out of Dollar assets and into alternatives such as gold. That could undermine the dollar's role as the world's leading currency.

Dollar dominance rests on two pillars. First, it accounts for about 59% of the foreign exchange reserves held by the world's central banks, far above the second-placed euro, on 20%. China's renminbi accounts for less than 3%, a lower share than the British pound. Second, the dollar is the default currency used in international transactions.

Yet the more the US 'weaponizes' the Dollar against the likes of Russia and Iran, the more it undercuts the attraction of the Dollar as a reserve currency. Saudi Arabia has moved to start pricing some of its oil sales to China in yuan. That's a noteworthy step as the Saudis have been selling oil exclusively in dollars since 1974. India and China are setting up alternative payment systems to buy Russian energy.

Investors expect a reserve currency to be backed by institutions such as independent central banks, and the rule of law, that are much better established in the West. That may explain why, the chief beneficiaries of the Dollar's fall has not been China, but the small, open economies of Canada, Australia, Sweden, South Korea and Singapore. These currencies provide options for diversification while continuing to benefit from the liquidity and sophistication provided by US financial markets.

A decade from now, the most likely outcome is a more fragmented global financial system – but one that still has the US dollar at its core.

Contact us

If you require further information about our services and how we can assist your clients, then please call us or send us an email about how and when we can contact you.

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