



Bank secrecy on the front page: event studies evaluating the fight against offshore tax evasion

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Private investors hold trillions of dollars in tax havens

Estimates by Gabriel Zucman (2013)

Private offshore wealth in 2008: *USD 6tr*

- 8% of the global financial wealth of households
- 75% goes unrecorded
- 34% in Switzerland

Estimates by BCG (2009)

Private offshore wealth in 2008: *USD 7tr*

- 27% in Switzerland

**Offshore tax evasion is quantitatively important
and Switzerland is the world market leader**

Several initiatives attempt to limit offshore tax evasion

Initiatives against offshore tax evasion

- EU Savings Tax Directive
Hemmelgarn and Nicodème (2009),
Johannesen (2014),
Klautke and Weichenrieder (2010)
- Exchange of information on request
Johannesen and Zucman (2014)
- Acquisitions of leaked client information
- Automatic exchange of information (AEOI)



**How did data leaks and the automatic exchange of info
affect the stock prices of Swiss banks?**

About event studies

General idea

- Measure the economic impact of an event on the value of a firm
- The value of a firm is the sum of the discounted future profits
- Given markets are rational, stock prices reflect events immediately while direct measures may react much later

Methodology in brief

- Estimate forecasting model for normal returns:
we eliminate 80% of the variation by controlling for the STOXX Europe 600
(with data from one year prior to the event)
- Calculate abnormal returns after an event:
 $\text{abnormal return (AR)} = \text{actual return} - \text{forecasted normal return}$
- Sum abnormal returns over 2-5 trading days after the event:
Cumulative abnormal return (CAR)

**Elicit immediate stock price reactions to an event
that cannot be explained by the general market conditions**

Data

Banks benefiting from the Swiss bank secrecy

- Swiss Bank Program by the US Department of Justice
- Category 1: banks investigated individually
- Category 2: banks self-disclosing their potential criminal liability due to their US cross-border business
- Include listed mother entities
- Exclude firms in other sectors than Banking or Financial Services
- 35-40 banks that assisted in offshore tax evasion
- Source for stock market data: Bloomberg

Important events

- Front page of *Neue Zürcher Zeitung* (01/2008 – 03/2016)
- All front pages: 2.500
- Identified articles on the bank secrecy: 600
- Data leaks: 11
- Steps toward the AEoI: 7

Banks in the Swiss Banks Program by the US DoJ

Category 1	Category 2		
HSBC	BNP Paribas	Graubuendner	Bank Coop
UBS	Banco Bilbao Vizcaya	Kantonalbank	Rothschild
Credit Suisse	Argentaria	Luzerner	Banca Intermobiliare
Bank Hapoalim	RBS	Kantonalbank	BHF Kleinwort
Leumi	Deutsche Bank	EFG	Benson
Julius Baer	Société Générale	St. Galler	Banco di Desio e
Mizrahi Tefahot	Standard Chartered	Kantonalbank	della Brianza
Basler Kantonalbank	Crédit Agricole	Bank Sarasin & Cie	Bank Linth LLB
Liechtensteinische	BTG Pactual	Vontobel	Hypothekarbank
Landesbank	KBC	Valiant	Lenzburg
	Dexia	Edmond de	Banque Cantonale
	Crédit Mutuel-CIC	Rothschild	du Jura
	Schroders	Berner	SB Saanen Bank
	Banque Cantonale	Kantonalbank	Medibank
	Vaudoise	Zuger Kantonalbank	Mercantil Servicios
	Aabar Investments	Walliser	Financieros
		Kantonalbank	



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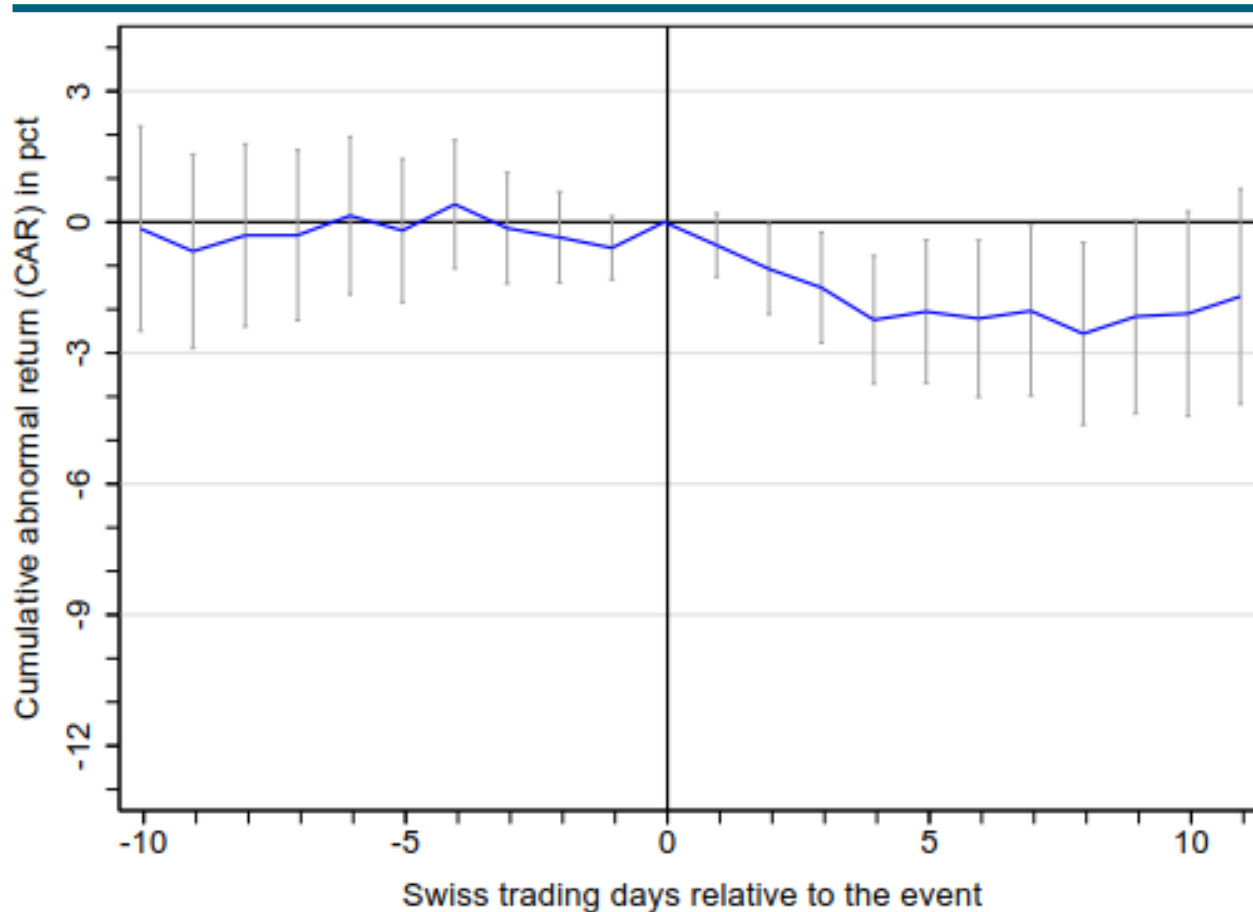
An event-study of leaked client information from banks in tax havens

THE DETERRENCE EFFECT OF WHISTLEBLOWING

Niels Johannesen and Tim Stolper

Performance of Swiss banks around the first data leak

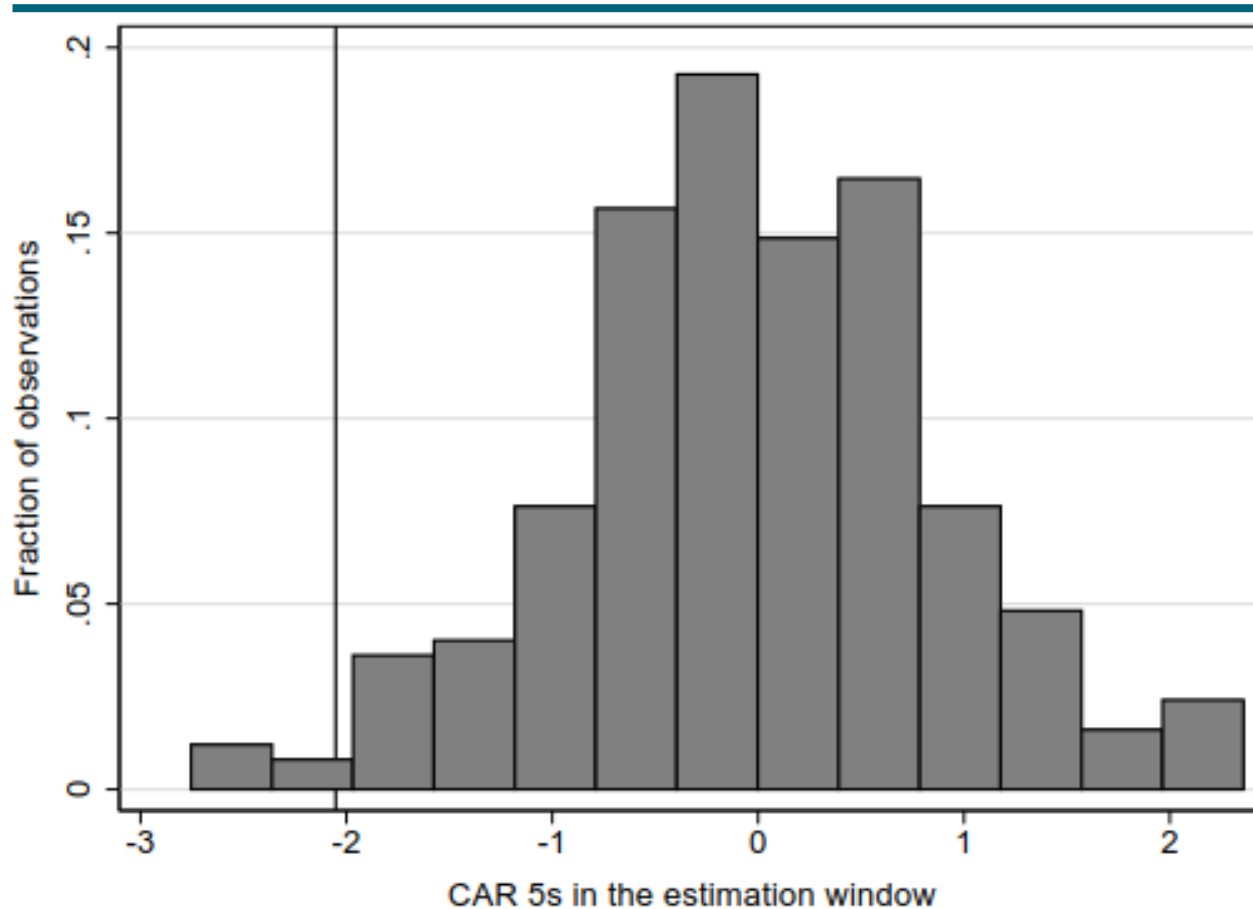
**Zumwinkel (head of Deutsche Post) is raided:
first data leak becomes apparent**



After the first data leak, Swiss banks perform > 2% worse than expected given the general market conditions

Estimated effects in the absence of a data leak

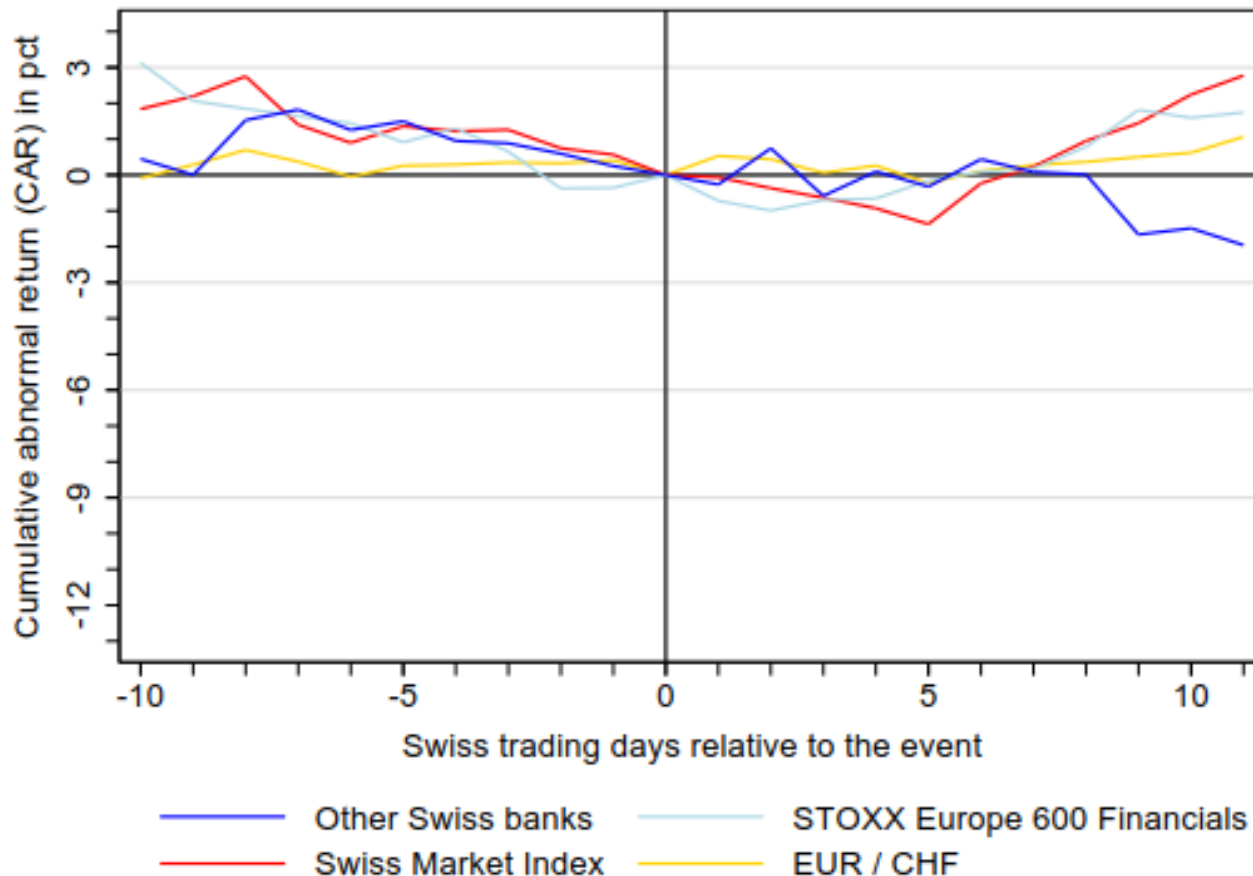
**Cumulative abnormal returns
in the year prior to the first data leak**



Identified effect is a rare event, i.e. statistically significant

Performance of comparison groups around the first data leak

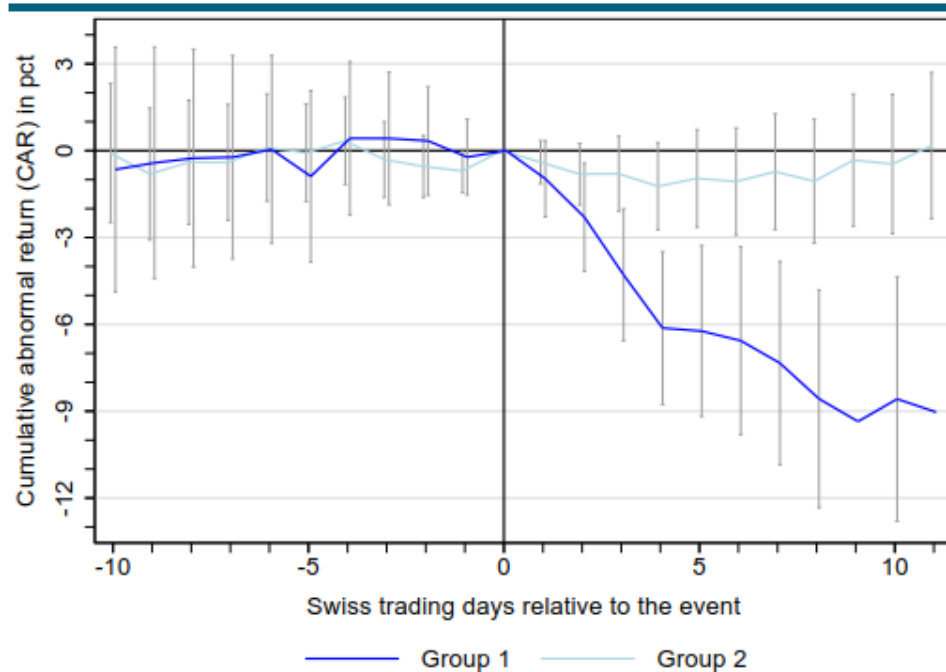
Swiss Banks not in the US Swiss Banks Program, Eur Financials Index, Swiss Market Index and CHF/EUR



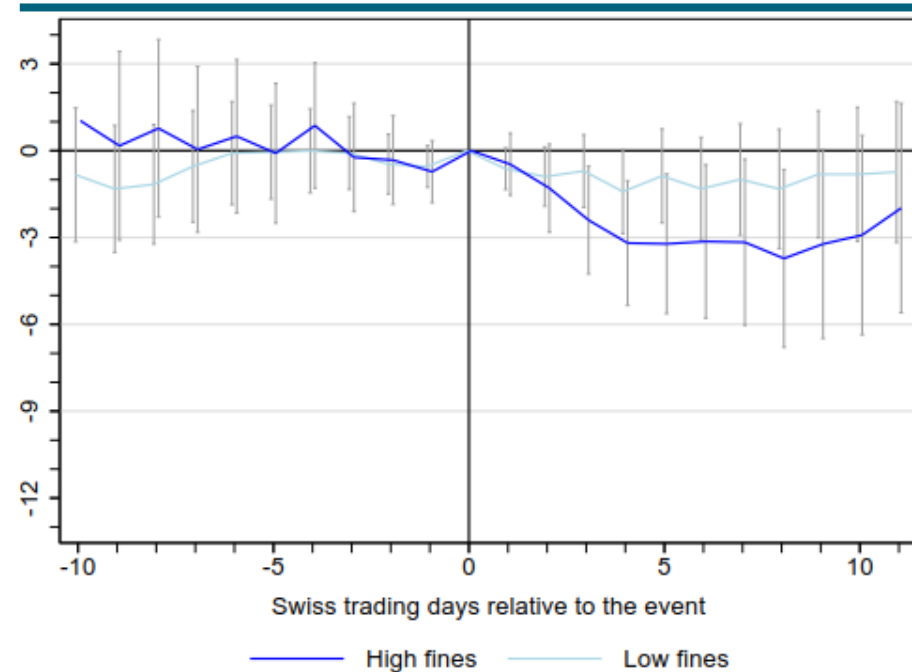
Identified effect was not driven by shocks to the financial sector, the Swiss market or the Swiss Franc

Variation in the estimated effect across banks

**Banks investigated individually vs.
banks that entered the group resolution**



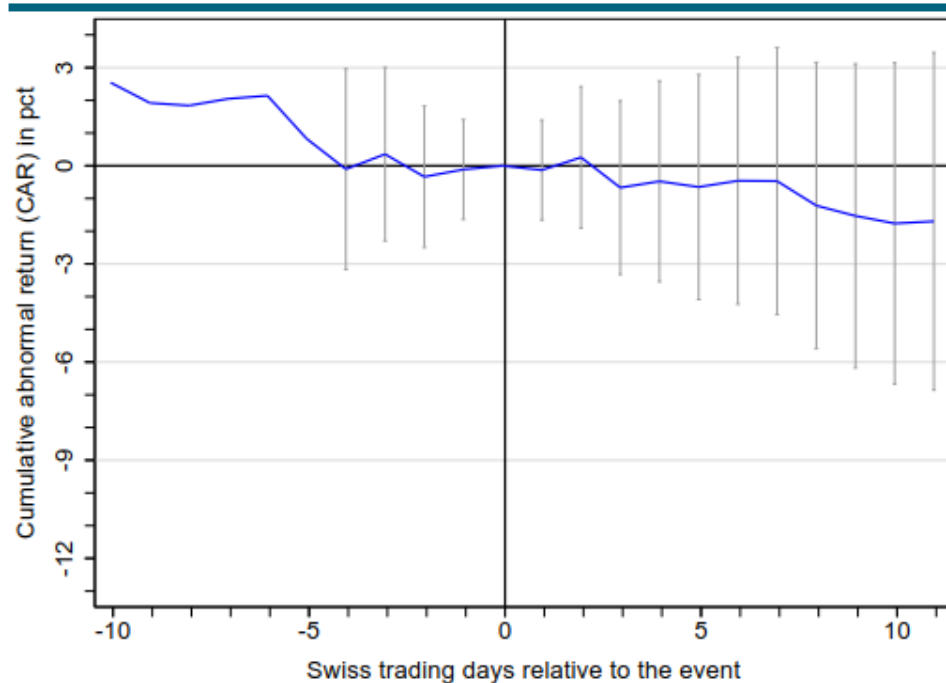
Banks with high vs. low penalties



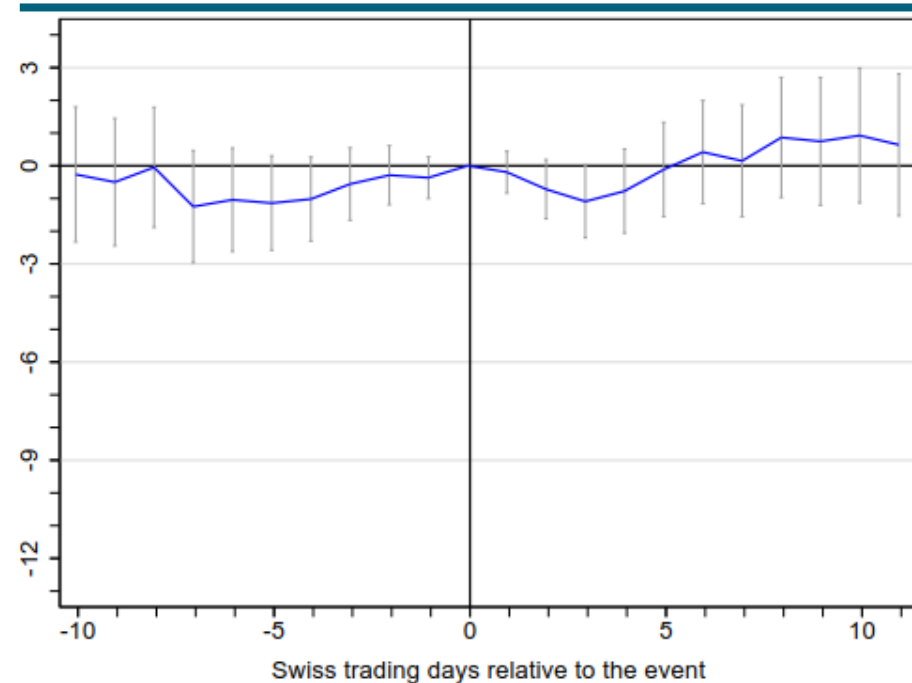
**Identified effect is stronger for banks
that are more engaged in assisting in offshore tax evasion**

Performance of Swiss banks around further data leaks: the example of Hervé Falciani

The Falciani leak becomes apparent



**Falciani's data is published
as the Swiss Leaks**



Subsequent data leaks had modest if any effects



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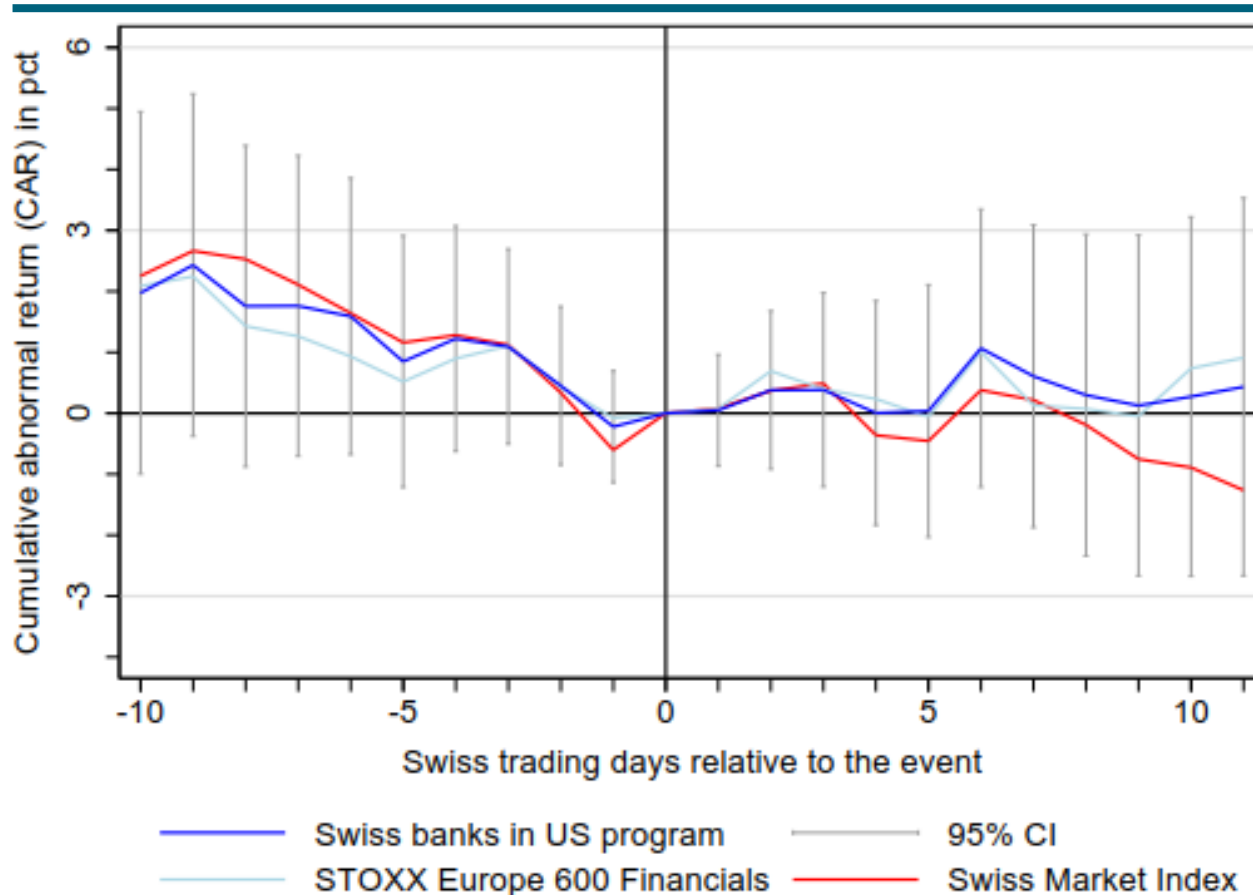
An event-study

SWISS BANKS AND THE AUTOMATIC EXCHANGE OF INFORMATION

Tim Stolper

Performance of Swiss banks around Switzerland's first concession to the AEoI

**“Federal Council changes the strategy:”
Switzerland will actively contribute to the AEoI**

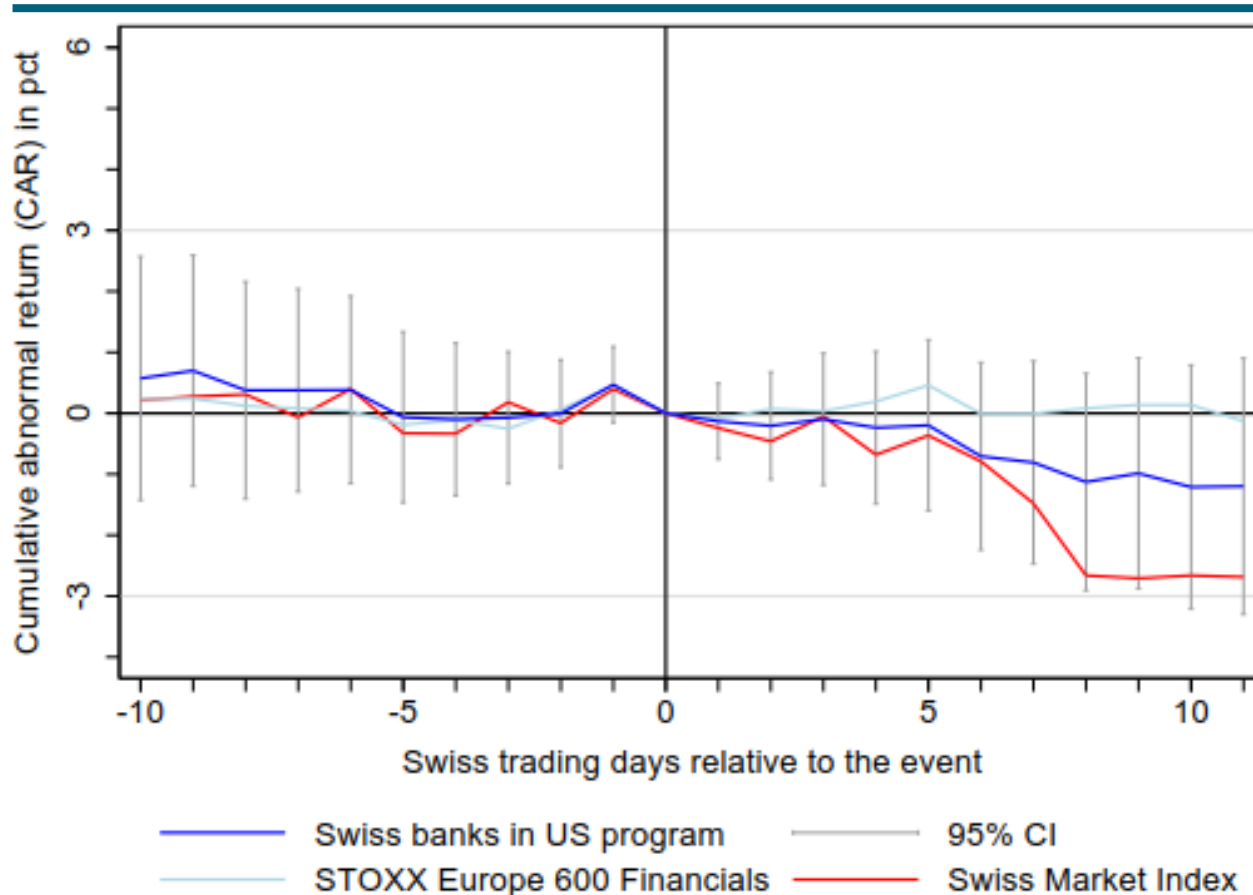


**No abnormal returns after the concession,
pre-event effects probably driven by other factors**

Performance of Swiss banks around Switzerland's ultimate concession to the AEoI

“Farewell to the bank secrecy:”

Switzerland determined to swiftly implement the AEoI



**No abnormal returns after the concession,
effects one week later probably driven by the Swiss market**

Robustness tests

Other important steps to the AEol

- 10.04.13 LUX agrees with EU on AEol
- 19.04.13 G20 demand AEol standard
- 26.04.13 AUT agrees with EU on AEol
- 15.06.13 CH willing to contribute to AEol as global standard
- 19.12.13 CH willing to negotiate with EU about AEol
- 07.05.14 CH agrees to OECD standard
- 15.01.15 CH signs EU treaty on AEol

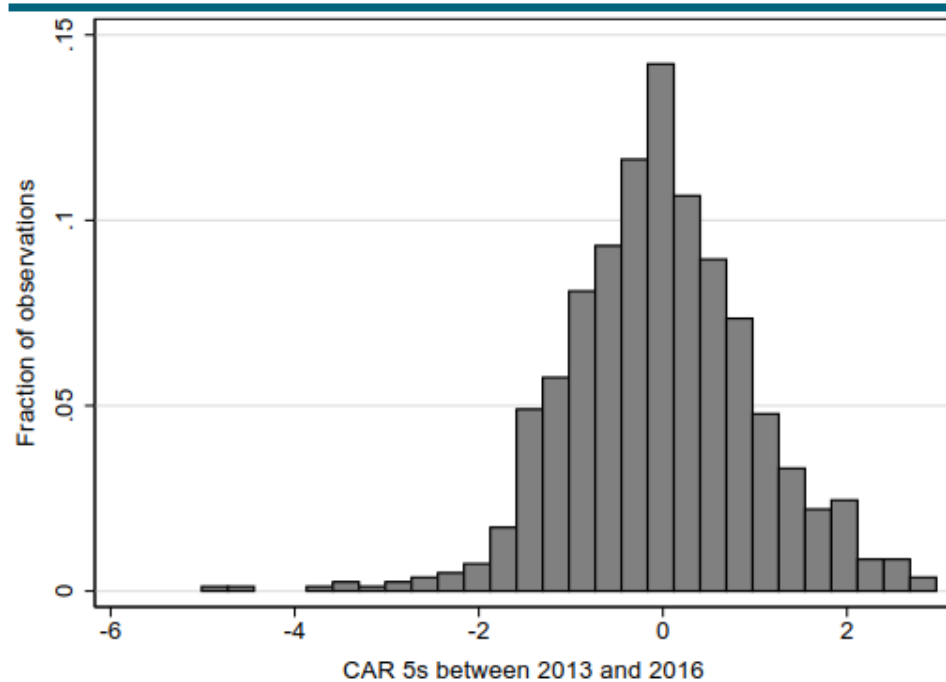
Other estimation specifications

- Effect on subgroups
 - US category 1 vs. 2
 - High vs. low penalties in the US
 - Swiss vs. non-Swiss headquarter
 - Banks vs. other financial services
- Weight portfolio of Swiss banks by market capitalization instead of equal weights

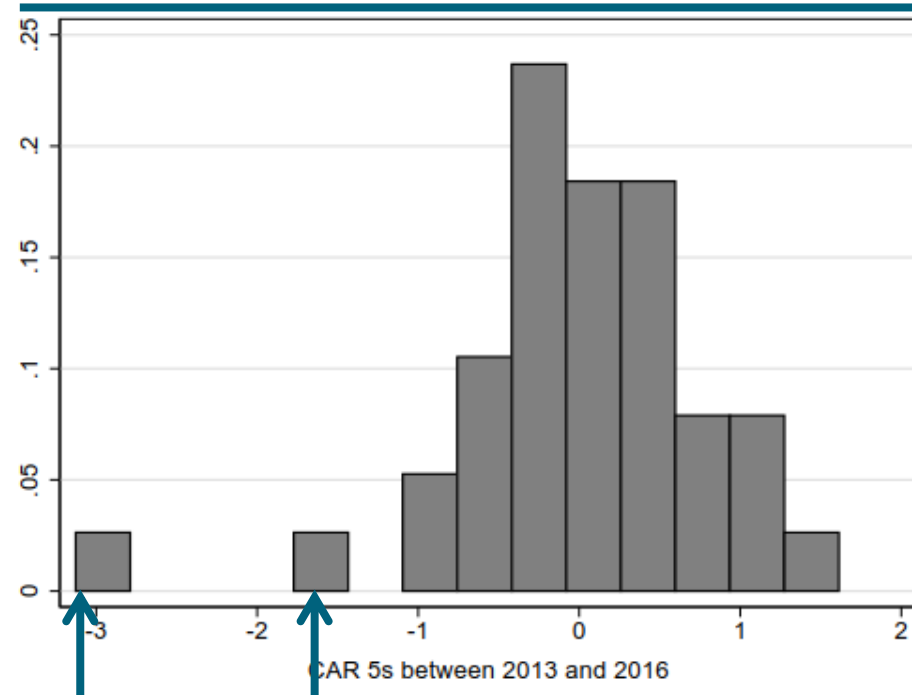
**No important step by Switzerland toward the AEol
had a negative impact on Swiss banks**

All possible CAR estimates between 2013 and 2016

**All NZZ front pages
with no AEol event in the next week**



**All NZZ front pages
with an article on the AEol**



Swiss National Bank
unpegged the CHF

LIE offers bilateral AEol
before the OECD standard
will be implemented

**No NZZ front page with an article on the AEol
was followed by negative effects for Swiss banks**

Conclusion

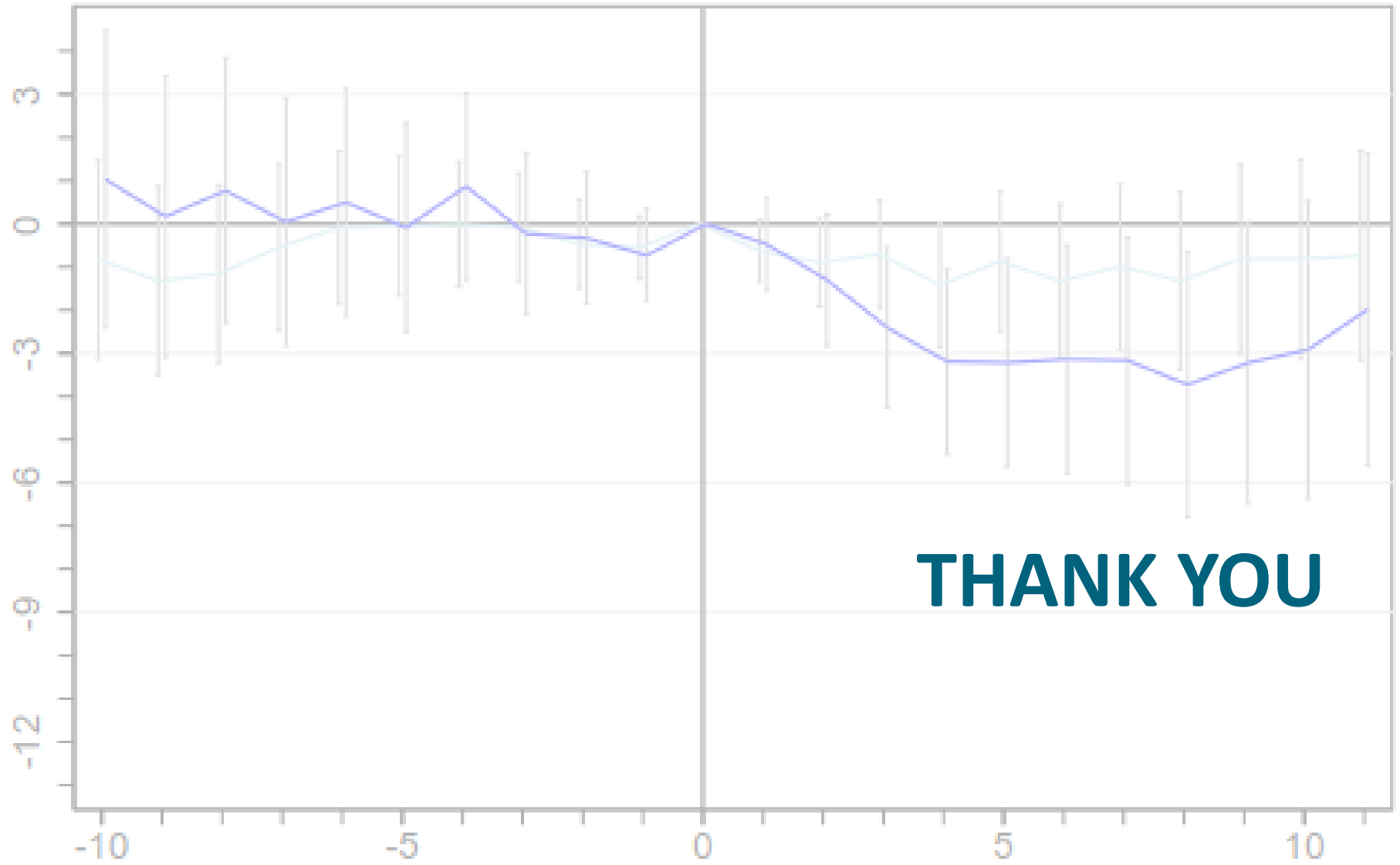
The deterrence effect of whistleblowing

- Stock prices of Swiss banks dropped after the first data leak
- Effect was driven by the banks' exposure to offshore tax evasion
- Subsequent data leaks had modest if any effect
- First data leak changed the perceived risk of offshore tax evasion
- Whistleblowing can have a deterring effect on an entire industry and not only on the subject of a data leak

Swiss banks and the automatic exchange of information

- Important steps toward the automatic exchange of information had no negative impact on the stock prices of Swiss banks
- Markets expect Swiss banks to still profit from the secrecy
 - Cf. previous literature on exchange of information on request (Johannessen & Zucman 2014)
 - Cf. the US loophole (Economist, February 20, 2016)

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THANK YOU