Bank secrecy on the front page: event studies evaluating the fight against offshore tax evasion
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
- 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: abnormal return (AR) = actual return – 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
### 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

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
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<tbody>
<tr>
<td>HSBC</td>
<td>Graubuendner Kantonalbank</td>
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<td>UBS</td>
<td>Luzerner Kantonalbank</td>
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<td>Credit Suisse</td>
<td>BNP Paribas</td>
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<td>Bank Hapoalim</td>
<td>Banco Bilbao Vizcaya</td>
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<td>Leumi</td>
<td>Argentaria</td>
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<td>Julius Baer</td>
<td>Deutsche Bank</td>
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<td>Mizrahi Tefahot</td>
<td>Société Générale</td>
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<td>Basler Kantonalbank</td>
<td>Standard Chartered</td>
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<td>Liechtensteinische Landesbank</td>
<td>Crédit Agricole</td>
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<td>Banco di Desio e della Brianza</td>
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<td>Banque Cantonale du Jura</td>
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<td>SB Saanen Bank</td>
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<td>Medibank</td>
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<td>Mercantil Servicios</td>
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<td>Financieros</td>
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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

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

Variation in the estimated effect across banks

- Banks investigated individually vs. banks that entered the group resolution
- Banks with high vs. low penalties
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
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 AEoI

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>10.04.13</td>
<td>LUX agrees with EU on AEoI</td>
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<td>19.04.13</td>
<td>G20 demand AEoI standard</td>
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<td>26.04.13</td>
<td>AUT agrees with EU on AEoI</td>
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<td>15.06.13</td>
<td>CH willing to contribute to AEoI as global standard</td>
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<td>19.12.13</td>
<td>CH willing to negotiate with EU about AEoI</td>
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<td>07.05.14</td>
<td>CH agrees to OECD standard</td>
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<td>15.01.15</td>
<td>CH signs EU treaty on AEoI</td>
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#### 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

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No important step by Switzerland toward the AEoI had a negative impact on Swiss banks
All possible CAR estimates between 2013 and 2016

All NZZ front pages with no AEoI event in the next week

All NZZ front pages with an article on the AEoI

Swiss National Bank unpegged the CHF

LIE offers bilateral AEoI before the OECD standard will be implemented

No NZZ front page with an article on the AEoI 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 (Johannesen & Zucman 2014)
  - Cf. the US loophole (Economist, February 20, 2016)
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THANK YOU