

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Džmuráň, Daniel
Advisor:	Petr Janský
Title of the thesis:	Financial Secrecy and Its Impact on Cross-Border Deposits

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

The thesis analyzes a very interesting and up to date topic of how financial secrecy affects the cross-border deposits that may reflect attempts for tax optimization or tax evasion. I agree with the author that the prominence the topic received at G20 and OECD meetings clearly underscores its relevance for current economic discourse. Despite of this potential I believe the author does only a moderately good job in exploring it, which compromises the overall value of the thesis.

I believe the author promises significantly more in the introduction than he is able to deliver in the remainder of the thesis. The first part of the thesis is essentially a replication of Johannesen and Zucman (2014a). The second part is original, but it is not clear why the secrecy scores of the Tax Justice Network should be a better way of capturing changes in the levels of secrecy. I would expect these scores to be fairly stable over time and so less well suited for the analysis of the effect on cross-country deposits than the implementation of bilateral treaties. Consistent with this proposition in the second part of the thesis the author documents fairly weak results and (contrary to the intuition) he does not observe the effect for tax havens countries, which suggests that the empirical findings may not reflect what they are intended to demonstrate. "I found that a 1-point decrease in secrecy score is associated with a 0.64 percent outflow of deposits. Interestingly, while for the sample of non-haven countries the relationship exceeds 1 percent, it completely fades out for tax havens, suggesting that the deposits of foreigners in tax havens do not reflect the development of the havens' financial secrecy. Examining what is the reason of this surprising finding is a good suggestion for further research." (p. 59)

Second, I observe only limited effort to "go deep" and to explore the alternative tests that could help explaining the main results. For example, the author finds out that "[a]fter signing a treaty, the amount of deposits placed by entities from tax haven in a non-haven bank accounts decreases by 20.70 percent." (p. 58). This may perhaps be the most interesting and indeed somewhat puzzling finding of the thesis. However, the author does not perform additional analysis to discover the underlying causes. Instead he argues that "this response might be attributed to a fear of tax evaders that their round-tripping schemes might be exposed." (p. 58). I agree with the author that it could be a potential explanation for the finding, however, without additional analysis that would help discriminate between the alternative explanations it is a mere speculation. In a similar vein, little effort is made to explain the puzzling finding in the second part that indicates that the effect is not present in tax havens (see above for details). Hence, some of the analysis makes an impression of being rather superficial.

Third, I believe the author should dispose of the space more strategically. He spends too much time discussing the very definition of tax havens. I do agree with the author that the definition shall be discussed, but the space allocation is excessive. . Similarly, I am not sure if it is

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necessary to discuss in detail the distinction between 'jurisdiction' and 'country'. I believe that it is fairly straightforward that the opportunities to organize tax evasion are starkly different in London and on the British Virgin Islands. "First, it is important to clarify the distinction between 'jurisdiction' and 'country'." (p. 5).

In addition, the author promises something he cannot deliver. The author acknowledges that the very definition of a tax haven is difficult to formulate (which I agree with) and he promises to pin down one ultimate definition (which I find quite ambitious if not impossible). "The definitional inconsistency would make it very difficult for a reader to understand and orientate within the text of this thesis, if the most commonly used terms would not be clearly defined. In this section, I will therefore provide such definitions, so the reader can be sure, how to perceive the basic terms, to which I will refer." (p. 4). Later he (unsurprisingly) simply gives up on pinning down the 'ultimate' definition. "Coming up with my own methodology for havens identification and releasing an original list of tax havens would be far beyond the scope and ambitions of this thesis (not to mention my qualification)." (p. 23).

To make things worse, still further the author does not make it clear which definition he uses. Compare the following statements. "Keeping that in mind, I will employ the definition by Markus Meinzer, one of the economists involved in the Tax Justice Network. In his paper, 'Where to draw the line? Identifying secrecy for applied research', he defines secrecy jurisdiction as a jurisdiction, which 'provides facilities that enable people or entities escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool' (Meinzer 2012, p. 1)." (p. 10). At a different place the author states the following: "However, since my study is built on the research by Johannesen and Zucman (2014a), the solution of the haven identification problem suggests itself. As drawing a comparison between my result and those by authors of the original paper is among the main goals of this thesis, I will use the same list of tax havens as they have." (p. 23). Of course, none of these definitions is perfect. I wonder, do these countries meet the above definition(s): Switzerland, Hong Kong, USA, Singapore? I suggest the author should be more careful in considering what is achievable and what is not.

Fourth, if I understand correctly the meaning of $a(ij)$ and $b(q)$ as fixed effects then sums and slope coefficients are missing in the provided equations, e.g. equation 2 on page 45. This again gives an impression of negligence and insufficient care for detail.

Fifth, I am surprised not to see more control variables that would capture the determinants of deposits. I understand that in the changes specification each country is in a sense a control for itself, but country characteristics can change over time (as does the secrecy index) and so I would prefer to see some conventional controls at least to capture the most obvious macro effects.

Sixth, I find some formulations imprecise and I think that greater care should be exercised when using specific terms. For example, there are many other reasons for income shifting

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than tax evasion: "The phenomenon of intentional profit shifting and tax avoidance has raised a lot of attention across many scientific fields." (p. 4). In a similar vein, regulation of financial reporting (accounting) and taxation are two completely different worlds driven by different consideration, agents and interests. In fact, there are no "accounting laws" (in the legal sense of the word "law"), while there are numerous "tax laws". "This resulted in the lack of internationally standardized accounting and fiscal laws, and thus also the globally accepted clear definition of tax haven." (p. 6). In addition, "event studies" typically measure short-term price reactions on event announcements than pre- vs. post- event levels.

Seventh, I believe the author should provide a better motivation for his contribution. I find this formulation rather vague: "The thesis brings in new findings to the literature on the 2009 Tax Haven crackdown and its evaluation. It also contributes to research on the role of financial secrecy and its implications to cross-border deposits. Additionally, the thesis examines the empirical potential of financial secrecy score and suggests it as a promising starting point for further research." I suggest the author should explain how specifically his work changes the way we think about financial secrecy.

Eighth, Sometimes I find the language the authors uses somewhat colloquial, which harms the message the thesis conveys, e.g. "Tax havens, secrecy jurisdictions, offshore financial centers – there are not many other three expressions with so much in common."

Ninth, tables should be accompanied by more informative notes.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
<i>Literature</i>	<i>(max. 20 points)</i>	18
<i>Methods</i>	<i>(max. 30 points)</i>	25
<i>Contribution</i>	<i>(max. 30 points)</i>	22
<i>Manuscript Form</i>	<i>(max. 20 points)</i>	18
TOTAL POINTS	<i>(max. 100 points)</i>	83
GRADE	(1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jiří Novák

DATE OF EVALUATION: June 12, 2017



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong Average Weak
20 10 0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong Average Weak
30 15 0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong Average Weak
30 15 0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě