

The International Banking Library (IBL)

is a web-based platform for the exchange of research on cross-border banking. The IBL-Newsletter addresses researchers working on topics related to international banking, and provides the latest updates on new research and conferences in the field.

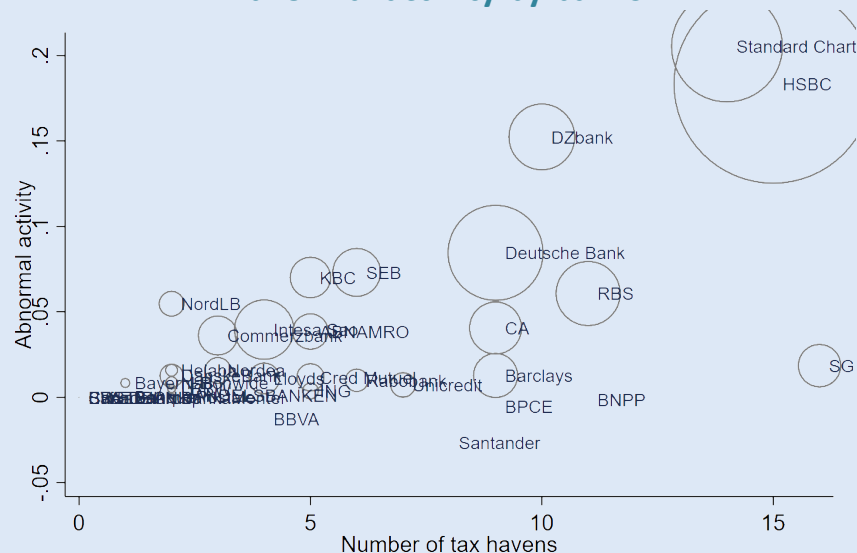
The fourth issue of 2018 features information on the effects of foreign banks' entry on systemic risk, cross border dividend stripping and suspicious activity of banks in tax havens.

Banks Defy Gravity in Tax Havens

To separate the contribution of EU banks to tax evasion by tax havens from legitimate cross-border activity, Vincent Bouvatier, Gunther Capelle-Blancard and Anne-Laure Delatte compare EU banks' foreign investments in tax havens with the activity predicted by a gravity model and note that some banks report unusually high cross-border positions. The figure on the right depicts the abnormal activity of banks in tax havens together with the number of tax havens the bank is active in.

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Abnormal activity by banks



Note: Y-axis: Abnormal activity is the sum of abnormal turnover recorded by bank k in tax havens as a ratio of total turnover (domestic + foreign). X-axis: Number of tax haven jurisdictions where bank k reports commercial activity. The size of the circle is proportionate to the total turnover in tax havens. The reference list of tax havens is Hines and Rice (1994)

Source: Bouvatier, Vincent, Gunther Capelle-Blancard, Anne-Laure Delatte (2018). Banks defy gravity in tax havens. CEPR Discussion Paper 12222. Fig. 2 p. 16.

At the Research Frontier

What's new in international banking?

Quarterly Selected Study

The Editors' Pick

- **Transmission of Monetary Policy through Global Banks: Whose Policy Matters?**

Stefan Avdjiev, Catherine Koch, Patrick McGuire and Goetz von Peter
BIS Working Papers No. 737

- **Cross-border Banking and the Circumvention of Macroprudential and Capital Control Measures**

Eugenio M Cerutti and Haonan Zhou
IMF Working Paper No. 18/217

- **Financial Stress in Lender Countries and Capital Outflows from Emerging Market Economies**

Ilhyock Shim and Kwanho Shin
BIS Working Papers No. 745

Foreign Expansion, Competition and Bank Risk

Ester Faia, Sebastien Laffitte and Gianmarco Ottaviano
CEPR Discussion Paper 13150

- **Research Questions:** How does foreign expansion of banks affect systemic risk in the host country? Does competition affect banks' risk taking when expanding abroad?
- **Data:** The novel data set consists of bank-level and market data of 15 G-SIB banks with headquarters in eight EU countries from 2005 to 2014. Systemic risk and competition metrics are additionally calculated for 38 destination countries. Foreign expansion is taken from annual reports, ORBIS vintages and SEC reports.
- **Main findings:** International expansion of banks, instrumented by predictions of a gravity model, leads to a **significant decline** in three out of four **systemic risk** measures for the host country. Individual **bank risk taking is reduced** by internationalization if the host country's banking system is more competitive compared to the bank's home country. A static theoretical model interprets this finding as the result of falling loan-deposit margins due to the increased competition.

Articles and Posts

Latest Updates

- **Fintech Credit Growth Concerns Policy Makers**

Lending via electronic platforms that are not operated by commercial banks rose worldwide from \$10 billion to \$284 billion between 2013 and 2016. Unlike other forms of credit, fintech credit volumes are higher when bank regulation is less stringent, suggesting the suspicion of regulatory arbitrage.

- **European Derivative Market Covers €660 Trillion in Notional**

The European Securities and Markets Authority's first annual report on the EU derivatives market notes an increase in central clearing. The market is dominated by foreign currency interest rate and exchange rate swaps.

- **Cross-Border Investing with Tax Arbitrage**

Robert L. McDonald describes in detail the incentives of the German dividend tax credit system, which allowed dividend stripping by foreign investors with the help of German banks. The practice, known as “cum-cum”, has caused an estimated loss of €24 billion in taxpayers' money since the paper has been published.

Research Agenda

Forthcoming Conferences

- **Financial Intermediation, Regulation and Economic Policy: The 50th Anniversary of the Journal of Money, Credit and Banking**

Frankfurt, Germany, March 28-29, 2019
European Central Bank and Ohio State University
Deadline CfP: **November 15, 2018**

- **7th HEC-McGill Winter Finance Workshop**

Sunshine Village, Canada, March 14-16, 2019
HEC Montréal and McGill University
Deadline CfP: **November 25, 2018**

- **2019 Marstrand Finance Conference**

Marstrand, Sweden, June 8-10, 2019
University of Gothenburg
Deadline CfP: **December 15, 2018**