

Estimation of Fraudulent Tax Reclaims Caused by Cum/Ex - ADR Transactions

On behalf of and in collaboration with the research network CORRECTIV

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The most important in brief:

Estimates of fraudulent tax reclaims due to Cum/Ex ADR transactions in six countries from 2009 to 2020 amount to USD 647 million.

I. Methodology

In cooperation with the research network CORRECTIV¹, we estimate the amount of fraudulent dividend tax reclaims caused by Cum/Ex ADR transactions. ADRs – short for American Depositary Receipts – enable U.S. investors to trade shares of foreign corporations in the U.S. financial market. ADRs represent U.S. dollar (USD) denominated shares of non-U.S. corporations backed by foreign shares which are held by U.S. depositaries. An ADR entitles holders to dividends in the same way as any other shareholder in the foreign company. It is assumed that ADRs have been used to conduct Cum/Ex operations, i.e., to make fraudulent tax reclaims.

The estimation is conducted for nine countries in the period from 2000 to 2020. The countries include Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, and Spain. ADR trading volume is obtained for each corporation for which an ADR security is available and which is listed on the leading stock index in its domestic market. For each ADR security, it is tested whether an abnormal trading volume is observed in a ten trading-day window around the dividend payment day. Abnormal trading volumes refer to strong trading volume peaks (see section III). It is assumed that these abnormal trades are associated with Cum/Ex operations. Abnormal trading volumes around the dividend payment dates are observed in the period from 2009 to 2020. For each identified abnormal trading volume around the dividend payment date, the potential fraudulent tax reclaim amount is calculated by multiplying the abnormal trading volume with the capitals gains tax rate, the dividend per share, and the ratio of ADR to the backed foreign share.

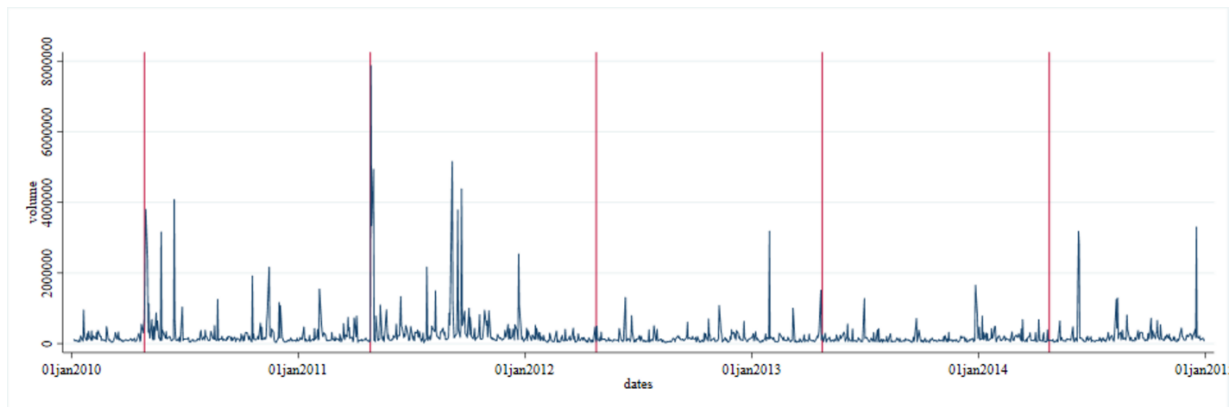
In sum, this results in a potential Cum/Ex ADR tax damage of around USD 647 million for all countries in the years 2009 to 2020. No indication of a potential Cum/Ex ADR damage is found in three countries.

II. Estimation of Fraudulent Tax Reclaims due to Cum/Ex ADR transactions

Fraudulent tax reclaims in million USD (2009-2020)		
Country	Index	Total
Netherlands	AEX	\$ 43.66
Austria	ATX	\$ -
Belgium	BEL20	\$ 114.41
France	CAC40	\$ 165.77
Germany	DAX	\$ 223.88
Italy	FTSEMIB	\$ -
Spain	IBEX	\$ 79.95
Ireland	ISEQ20	\$ 19.52
Luxembourg	LUX	\$ -
		\$ 647.19

¹ CORRECTIV is a donation-funded research center for investigative journalism in Germany (<https://correctiv.org/ueber-uns/>).

III. Exemplary Figure of ADR Trading Volume Peaks at Dividend Payment Date



This exemplary figure shows the ADR trading volume for a specific corporation over time. The vertical red lines refer to dividend payment dates. In the years 2010 and 2011, strong trading volume peaks can be observed around the dividend payment dates.